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The Small Business Adviser

Published by U.S. Chamber of Commerce

What's Ahead In Congress

Easier Routes To Capital

IRS Rules Meet Business Uproar

Small Business Outlook 1998

Is Your Company Keeping Pace?

Strange as it may seem, good economic times pose challenges for small firms.

JANUARY 1998 - $3.00

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Region by region, *economic growth is forecast to remain strong through 1998—though somewhat behind 1997's pace. The risk of inflation remains a concern, however, and labor shortages may pose special problems for small companies. Cover Story, Page 14.*

PHOTO: ©RICHARD SHOCK

Playing to win, *Dave and Annette King adjusted their strategy to help their sports-events company grow. Making It, Page 50.*

VOL. 86, NO. 1

PHOTO: ©BILL ROSS

Restaurateur *Bob Perkins uses a laser printer to make his menus and product labels. Small Business Technology, Page 38.*

DEPARTMENTS

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Editor's Note

Are We There Yet?

"It's so good it hurts," Iowa's chief economist, Harvey Siegelman, told our cover-story author, Senior Editor Jim Worsham, when Worsham inquired about the state's economy. "It's a real challenge to find ways to squeeze more economic growth out of a state," Siegelman said.

While it's hard to complain about such problems, many companies face similar dilemmas as they begin the new year with no end in sight to the economic expansion. Our annual small-business outlook—"Is Your Company Keeping Pace?"—describes the challenges posed by the vibrant economy and offers advice for small firms on how to meet them.

The outlook begins on Page 14, with the regional forecasts on Pages 16 and 17. Be sure to see, too, "Smart Tactics For Finding Workers," on Page 20; the article offers possible solutions to one of the most pervasive difficulties that employers face.

We're proud to kick off 1998 with an issue full of useful and important information for business owners and managers.

PHOTO: ©TODD BUCHANAN

One such article details a move that could benefit entrepreneurs who might want to expand their operations by buying a franchise. This special franchising guide, written by Senior Associate Editor Joan Pryde and beginning on Page 53, emphasizes efforts by franchisors to help prospective buyers get the capital they need. The article examines other financing options as well. Among the business owners interviewed were Jim Tullis and Sue Schroeder, who were serious—despite the photo above—about finding cash to open their bagel franchise. We hope the information you find in this issue will make you smile, too.

Mary Y. McElveen

Mary Y. McElveen
Editor

Letters

High-Tech Semantics: 'Hackers' And 'Crackers'

Your November cover story, "Computer Crime," was very informative. However, it contained a mistake that's found in many computer-related articles in the mainstream media.

The story incorrectly associated the term "hacker" with computer criminals, but they are not the same thing. Hackers are computer enthusiasts who do no harm. The term originated in the 1960s, when programming was accomplished largely by sitting down and "hacking" out code without any predetermined design.

The correct term for a computer criminal is "cracker," which is short for "criminal hacker."

Brent Putnam
Information Systems Technician
The Sandwich Co-operative Bank
Sandwich, Mass.

[Editor's Note: We were relying on Webster's New World Dictionary, Third College Edition, *which includes among the definitions for "hacker": a talented amateur user of computers, specifically one who attempts to gain unauthorized access to files in various systems.]*

IRS Division Might Be A Model For Reform

As evidenced by your December editorial, "An Excellent Opportunity To Reform The IRS," the Internal Revenue Service has received a substantial lashing lately—one that is much deserved and long overdue, according to many.

However, before we condemn the entire agency, consider that the Employee Plans Division, which oversees the nation's retirement plans, has done an excellent job of providing fair interpretation and enforcement of its portion of the tax code.

I have been working with this division for more than 20 years. Since 1991 I have seen the division make a dramatic turn toward customer service and cooperative spirit.

The division has become extremely responsive to the needs of the pension community, both in assisting pension sponsors and protecting the rights of participants. And although we don't see eye to eye on every issue, officials and employees of the division are evenhanded and respectful.

The division has forged a unique relationship with business. So before we overhaul the entire agency, let's keep what's working and let the Employee Plans Division be a model for the rest of the IRS.

Pat Byrnes, President
Actuarial Consultants, Inc.
Torrance, Calif.

[Editor's Note: Readers can still express their views on the IRS through the Where I Stand poll in the December issue.]

Unfair Advantage For Postal Service?

I read with interest your article on the U.S. Postal Service's business strategy and its proposed rate increases ["Postal Increases: Smaller Is Better," October].

It is most perplexing to me that the Postal Service would even want to increase its rates on Priority Mail and Express Mail when it claims that these are already so profitable. And they should be profitable, since the Postal Service pays pilots less than half the industry-norm wage.

I should know. I represented Ryan International Airlines pilots who filed a complaint with the Labor Department's Wage Appeals Board. Interestingly, the board agreed that the pilots were underpaid. However, the Postal Service has been furiously contesting the decision and has not yet increased pay.

Perhaps Federal Express, United Parcel Service, DHL, and Airborne Express should contact their congressional representatives and ask about the Postal Service's unfair competitive advantage.

C. R. Mclain
Temple Terrace, Fla.

Making A Strong Case For Safety Programs

In regard to "A Rule Mandating Safety And Health?" [September], I feel obligated to express another view.

I run a loss-control and safety department of a workers' compensation organization. Those in my department physically survey every account that we provide insurance for, and we evaluate the effectiveness of the companies' safety programs—assuming there is a safety program.

A print-shop owner featured in your article, in describing a recent accident in which an employee fell through the roof while adjusting a vent, states, "You can't plan for that," implying that the injury was unavoidable.

I say injuries can be prevented.

If the area of the roof where the employee fell was not designed to hold people, why was the employee walking there? Why was that portion of the roof not guarded against foot traffic?

An inclusive, written safety program can educate employees not to perform hazardous jobs. There is no reason why a company of any size should not implement such a program.

Business owners should not worry about fines from the Occupational Safety and Health Administration; they should worry about the welfare of their employees and do everything in their power to establish a safe working environment.

Howard V. Barton II
Vice President of Loss Control
Sun Employer Services
Montgomery, Ala.

Two Types Of Costs In The Clean-Air Debate

The views expressed in "Clean-Air Rules Should Be Delayed" [Editorial, November] are bad business.

No amount of money justifies one single death. Countless millions of lives would be saved by cleaner air. Pollution is a main cause of illness, and reducing it would also reduce absenteeism, poor productivity, and the need to replace workers because of ill health.

The editorial places its concern on money, but the cost of not implementing stronger clean-air laws now is much greater than the cost of implementing them.

Juan Trigo
Key Biscayne, Fla.

Feeling Victimized By America's Retailers

I am starting to conclude that the color of one's skin matters much more to America's retailers than the color of one's money.

In the past year, I have been followed through all five floors of a department store by a store detective as I spent my money. I was ignored by the sales staff and refused credit, even though I have an account in good standing with the store's parent company.

When I attempted to return a defective vacuum cleaner to another department store, I was accused of stealing it, even though I produced a receipt.

Recently, a manager at a bookstore made me wait while he called my bank to verify that I had enough money in my account to cover a $136 check. He didn't call the electronic check-cashing service, which had approved my check; he called my bank in front of other customers whose banks he didn't call. "Store policy," I was told. But it's a policy that evidently was developed just for me.

America's retailers better wake up. To those who think that the civil-rights movement and political correctness have wiped out racism, think again.

Or better yet, go shopping with me sometime.

Angalia Moore
Washington, D.C.

Correction

In "Points For Paring Your Tax Bill" [December], the effective date of two tax changes was misstated. The elimination of the 15 percent excise tax on withdrawals above $160,000 annually from individual retirement accounts or retirement plans, or on a lump-sum payment of at least $800,000, is effective for excess distributions received after Dec. 31, 1996. The elimination of the 15 percent levy on so-called excess assets at the time of death, namely, assets above the amount needed to generate a payout of $160,000 a year, is effective for decedents who die after Dec. 31, 1996.

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ENTREPRENEUR'S NOTEBOOK

Brewing A Market For A Special Product

By Michael Kramm

PHOTO: ©TOM SOBOLIK—BLACK STAR

The goal *at Michael Kramm's Capresso, Inc., is to provide innovative coffee makers for people who want top-of-the-line merchandise.*

It isn't hard to sell mousetraps. Virtually everyone understands how they work and what their purpose is.

But if you have a better mousetrap—something with unique features that improves on the original—you have a sales job ahead of you. People won't beat a path to your door until you educate them about what makes your product better.

In 1994, after nearly 20 years of introducing high-end, Euro-style coffee makers and home espresso makers to the American market as president of Krups USA, I founded Capresso, Inc., with one goal in mind: to provide innovative coffee and espresso machines for those who want the best.

Today, our coffee makers can be found in nearly 3,000 specialty stores selling kitchen products or gourmet coffee, such as Williams-Sonoma and Gloria Jean's, as well as in high-end catalogs such as Hammacher Schlemmer and Fortunoff's. Capresso's suggested retail prices average more than $100 and run up to $1,400, so the company's success has rested on convincing coffee lovers that our machines brew a better cup of coffee. That means we have to educate the public about our better mousetrap.

If you have a terrific product but need to create or increase the market for it, make education a priority. Here are some tips to help you in your efforts:

Keep your message focused. Too many manufacturers try to tell everybody everything about their product. Nobody should expect a sales associate—let alone a customer—in a store with hundreds of products to remember 20 different things about a specific product. Narrow your message so they can remember the two or three key features that make your product different and better than the competition's. Product literature should highlight those same points but can include more-detailed information.

Let people test the product. Have a display model set up and ready to be demonstrated so customers can see how your product works. Keep demonstration times short. We tell salespeople in our outlets to brew no more than four cups so customers won't have to wait more than a couple of minutes to taste the results.

Use education as a way to build trust. Consumers today are constantly paying for bells and whistles they don't need. With coffee makers, for example, consumers have been taught to believe that they should buy the largest-quantity coffee maker available because they *sometimes* need to make that much, even though their daily routine may call for brewing no more than six cups. Furthermore, I have yet to find a coffee maker that can make 12 great cups of coffee.

We suggest to consumers that they buy a coffee maker that fits their daily needs and then brew two or more pots in a row when large quantities are needed. By making that suggestion and providing information on why brewing smaller quantities yields better results, we give customers a choice and build their confidence in the fact that we are mindful of their best interests.

Don't stop with the sale. Consumers, especially high-end consumers, aren't stupid, but they don't always read product instructions. Train customer-service people not only on product features and trouble-shooting but also on how to respond politely to consumer questions that could be answered easily by reading the owner's manual.

Listen carefully. Our product-registration cards include an open-ended question that allows consumers to offer suggestions on improving the products. Listening to our customers and retailers helps us develop products that will sell themselves and thus require little marketing expense.

Ultimately, the more educated your sales force and consumers become about your better mousetrap, the better it will sell. NB

Michael Kramm is founder and president of Capresso, Inc., in Closter, N.J. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Educating consumers and your sales force is the key to selling high-end merchandise.


DP-560 Laser Printer
The trustworthy sibling.
True 600 DPI begets professional quality text. 6 PPM, Windows compatible.
The Functional Family
DP-570 Laser Printer
The nurturing, dependable spouse.
Prints complex charts, graphs and halftones expeditiously. True 600 DPI, PCL6 printing. 6 PPM, Windows-DOS compatible.
DP-580 Laser Printer
The gifted yet magnanimous sibling.
Very presentable, high-end resolution—1200 DPI class.
MIP-650
The multi-faceted matriarch.
Fax/copy/print/scan in one. True 600 DPI, GDI printing. 6 PPM, Windows compatible.
MIP-670
The sage and benevolent grand patriarch.
Fax/copy/print/scan and more. True 600 DPI, PCL6 printing. 6 PPM, Windows-DOS compatible.
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Dateline: Washington

Business news in brief from the nation's capital.

INTERNATIONAL TRADE

Fast-Track Supporters Vow To Keep Pushing For A Vote

Key proponents of legislation that would grant President Clinton fast-track trade-negotiating authority have vowed to continue fighting in 1998 for congressional passage of the measure.

"Especially for our small-business members, we're going to continue pushing for a vote," says Willard A. Workman, vice president/international of the U.S. Chamber of Commerce. Workman says the Chamber and other backers of fast-track authority have been told by Republican congressional leaders that "if there's a way to get a successful vote, we will find it."

The legislation, which would enable the administration to negotiate trade agreements that would be subject only to approval or rejection by Congress with no amendments, was pulled from House consideration Nov. 10 at the request of President Clinton. The request was made when it became clear that there were not enough votes to pass the measure.

Although most Republicans supported the legislation, passage was not ensured because too few Democrats—who were under heavy pressure from labor unions to oppose the measure—could be persuaded to vote for the bill.

Lack of fast-track authority does not preclude the administration from negotiating trade pacts, but other nations have tended to shy away from negotiations without such authority because any deals struck would be subject to change by Congress.

Clinton had sought the authority—which every president from 1974 to 1994 had—primarily for the purpose of negotiating trade pacts with fast-growing Latin American nations. Those countries are now signing trade agreements with European and Asian nations while the United States sits on the sidelines.

The Chamber's Workman says that small businesses would be hurt the most by the failure of Congress to provide the president with fast-track authority. Big companies can deal directly with other nations on trade terms and can make concessions to them such as building plants to create jobs; individual small businesses lack the marketplace clout to do that.

—*James Worsham*

Growing Exports To Latin America

Maintaining the expansion of U.S. exports to Latin America requires that Congress grant the president fast-track trade-negotiating authority, say supporters of the procedure.

(U.S. Dollars, In Billions)

Region	1992	1993	1994	1995	1996
South America	$23.0	23.4	27.3	33.4	35.5
Central America	$ 5.4	6.0	6.6	7.4	7.7
Caribbean	$ 6.3	6.8	7.2	8.3	8.6

SOURCE: U.S. DEPARTMENT OF COMMERCE

CHARTS: ALBERTO PACHECO

TAXES

Social Security Tax Ceiling On Wages Rises To $68,400

The ceiling will rise in 1998 on the amount of an individual's wages subject to the Social Security tax paid by employers and wage earners. The tax will be levied on the first $68,400 of wages earned, up from $65,400 in 1997. Under terms of a 1993 law, all wages earned are subject to the Medicare tax, which helps pay the health-care costs of the elderly and disabled.

The Social Security tax rate will remain the same in 1998 as it was in 1997, 6.2 percent each for employer and employee. The Medicare tax rate will remain at 1.45 percent each.

The rate for self-employed individuals, who pay both the employer and employee shares of the payroll tax, will remain at 15.3 percent—12.4 percent for Social Security and 2.9 percent for Medicare.

Social Security recipients will receive a 2.1 percent cost-of-living increase beginning with their January 1998 checks. The higher benefit was calculated based on increases in the Consumer Price Index over the previous year. The same rate increase is applied to some private-sector pension plans and some other federal benefits payments. The 1998 cost-of-living increase is the lowest since the 1.3 percent increase that took effect in January 1987.

Also, under provisions of a 1996 law, the earnings limit for Social Security beneficiaries ages 65 to 69 will increase to $14,500 in 1998, up from $13,500 in 1997. Recipients lose $1 in benefits for every $3 earned over the limit.

The earnings amount at which individuals ages 62 to 64 begin losing $1 in benefits for every $2 earned rises to $9,120, up from $8,640 in 1997. There is no earnings limit for those age 70 or older.

The maximum monthly Social Security benefit for a worker retiring during 1998 at age 65 is $1,342, up from $1,326 in 1997.

—*Albert G. Holzinger*

IRS Image-Building Efforts Fail To Halt Push For Reform

Recent efforts by the Internal Revenue Service to improve its image haven't deterred Congress from moving forward on legislation that would radically restructure the agency and create several new taxpayer protections.

On Nov. 5, shortly before adjourning for the year, the House approved 426-4 a proposal to overhaul the IRS. The far-reaching measure would set up an independent board, led by private-sector professionals, to govern the agency.

Among other provisions, the bill would shift the burden of proof from taxpayers to the IRS in civil-court cases, extend the attorney-client privilege to accountants and other tax professionals in dealings with the IRS, and make it easier for taxpayers to sue the agency.

The Senate delayed action on the measure until spring. Among the reasons for the delay was disagreement by Finance

TAXES

Committee Chairman William V. Roth Jr., R-Del., with some elements in the House bill. He said he was concerned, for example, that shifting the burden of proof in civil-court cases would make the agency even more aggressive and intrusive in the way it develops cases against taxpayers.

President Clinton, who had opposed the House measure, did an about-face in October and threw his support behind the bill after he persuaded House members to let him maintain the authority to appoint the IRS's top official, the commissioner of internal revenue. An earlier version of the bill would have shifted that authority to the outside board.

Clinton's choice for the commissioner post, Charles Rossotti, was confirmed by the Senate on Nov. 3 on a 92-0 vote and was sworn in 10 days later.

The IRS, meanwhile—stung by abuse charges that emerged during hearings in the Senate Finance Committee in late September—announced a number of initiatives designed to counter those criticisms. For example, the IRS said it will solicit additional feedback from taxpayers who have contact with agency collection officers; the effort is already under way for taxpayers who deal with auditors, according to the IRS. In addition, each of the 33 IRS districts has begun holding monthly "problem-solving forums" in which taxpayers are given the opportunity to meet with local IRS officials to work out difficulties they are having with the agency. The first round of forums was held Nov. 15.

The IRS also released statistics showing that the agency's workload is increasing while its resources are diminishing. (See the chart above.) The statistics show that from 1991 to 1996, tax returns filed increased by 2.5 percent, to 208.9 million, while IRS employment was reduced by more than 7 percent, to 106,300.

—*Joan Pryde*

Collecting More With Less

In the 1990s, the number of tax returns filed and the amount of revenue collected have increased while the Internal Revenue Service's staff has decreased.

SOURCE: INTERNAL REVENUE SERVICE

SMALL BUSINESS ADMINISTRATION

SBA Reauthorization Includes Benefits For Small Firms

Just before adjourning, Congress handed small businesses some victories in legislation to reauthorize the U.S. Small Business Administration. The measure was signed by President Clinton on Dec. 2. Among its provisions are:

■ An increase, to 23 percent from 20 percent, in the governmentwide goal of procurement contracts to be awarded to small businesses.

■ A new program to encourage the awarding of federal contracts to small firms in economically distressed inner-city and rural areas called HUBZones, for historically underutilized business zones. HUBZones are areas in which the median household income is no more than 80 percent of the statewide median. Beginning Oct. 1, 1998, 1 percent of the more than $200 billion in annual government procurement will be set aside for HUBZone firms, and the amount will increase by 0.5 percent each year through 2003.

■ A requirement that federal agencies provide stronger justification for "bundling," or consolidating, federal contracts, which can put them out of the reach of small businesses. The SBA also will have greater authority to contest bundling practices.

The measure gives three more years of life to the small, independent agency, once considered a target for elimination, and continues its popular loan-guarantee programs—the so-called 7(a) general loans and the 504 loans for long-term capital financing.

—*James Worsham*

Women's Group Seeks Federal Master Plan

A report published by the National Women's Business Council (NWBC), a Washington-based group established by Congress in 1994 as an independent source of counsel to the president, Congress, and the Interagency Committee on Women's Business Enterprise, recommends that the U.S. Small Business Administration develop a "Small Business Master Plan" for the federal government.

"The plan should reflect the public-private partnership needed to provide support to small businesses and link federal, state, and private resources," says *Growing Women's Businesses*, a report based on workshops held in 10 cities last summer to develop policy recommendations for enhancing women business owners' access to capital and credit.

Workshop participants included women entrepreneurs, investors, lenders, and government officials. The sessions were sponsored by the NWBC, the Federal Reserve System, and the SBA.

According to the report, the master plan should "include programs designed to meet the particular needs of the fastest-growing small-business sector: women-owned businesses." (Studies by the National Foundation for Women Business Owners, a research organization based in Silver Spring, Md., indicate that there are 8 million women-owned companies in the United States.)

In other recommendations, the workshop participants called for innovative incentives, such as targeted tax credits to spur investment that will help women's businesses grow; improved recognition of service-based businesses; and initiatives to reduce the risk and expense of making smaller loans so that such loans would become more available to entrepreneurs.

The report states: "Current financial-institution regulations place essentially equal regulatory burdens on commercial loans of $5,000, $50,000, $500,000, and $5 million. This serves as a disincentive to make smaller loans."

Also needed, according to the report, is support for financing the exports of service businesses, "because often there is no tangible asset for a borrower to offer as collateral. ... Participants suggested new lending criteria using intangible assets, such as intellectual property, be developed to finance these ventures."

The NWBC is chaired by Lillian Vernon, chairman and CEO of Lillian Vernon Corp., a catalog company based in New Rochelle, N.Y.

—*Sharon Nelton*

WORK FORCE

Partnership Can Help Firms Employ Welfare Recipients

Companies that would like to hire people off the welfare rolls but don't know how to go about it can look to the Welfare to Work Partnership, based in Washington, as a potentially valuable source of assistance.

The partnership is a national effort to help businesses hire and retain welfare recipients without displacing existing workers. The organization is coordinating its efforts with state and local governments and private and public social-service agencies.

The nonprofit organization was started in May by several large corporations—including United Airlines, Burger King, Sprint USA, Monsanto, and United Parcel Service—to help implement the then-new federal welfare-reform law.

The Personal Responsibility and Work Opportunity Act, which was signed into law Aug. 22, 1996, and is effective for welfare benefits received on or after that date, requires most able-bodied adults to find work within two years after they begin receiving benefits; it limits lifetime benefits to five years. Previously, there were no limits.

Companies that commit to hire people on public assistance will receive from the partnership a guidebook on employment, a quarterly newsletter, and policy briefings on welfare-to-work programs. In addition, employers can attend seminars and conferences conducted by the partnership.

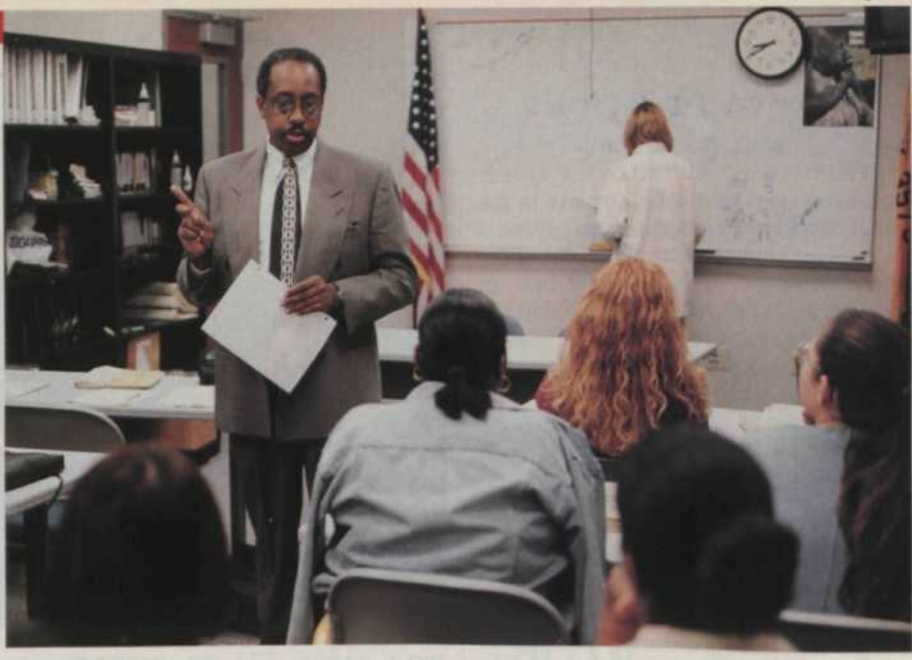
The partnership also plans to develop regional directories of job-training, child-care, and other service providers often needed by welfare recipients making the transition to a job.

More than 2,500 firms have signed up as "business partners" to hire welfare recipients since the partnership was established.

The U.S. Chamber of Commerce has asked its 3,000 state and local chamber affiliates to join the partnership.

For more information about the organization, call 1-888-USA-JOB1 (1-888-872-5621) or visit the partnership's site on the World Wide Web at *www.welfaretowork.org.*

—*David Warner*



At Cessna Aircraft Co. *in Wichita, Kan., plant manager Johnnie Cartledge teaches blueprint reading to former welfare recipients hired by the company, a member of the national Welfare to Work Partnership.*

New Employer Tax Credit Takes Effect Jan. 1

Beginning Jan. 1, employers who hire certain welfare recipients are eligible for a new tax credit. The Welfare-to-Work Tax Credit allows employers to deduct from taxes owed 35 percent of the first year's first $10,000 in wages and 50 percent of the second year's first $10,000 in wages paid to workers who had been long-term welfare recipients.

Long-term welfare recipients are defined as those who received Aid to Families with Dependent Children (AFDC) for at least 18 consecutive months immediately before employment, those who received AFDC for 18 months after Aug. 5, 1997, and those who became ineligible for assistance after Aug. 5, 1997, because of federal or state time limits on receiving welfare benefits.

The credit, which expires April 30, 1999, was included in the Taxpayer Relief Act of 1997—the balanced-budget agreement signed into law Aug. 5.

A related tax provision, the Work Opportunity Tax Credit—formerly known as the Targeted Jobs Tax Credit—was extended to June 30, 1998, and modified in the tax-relief statute. The provision was scheduled to expire Sept. 30, 1997.

The work-opportunity credit allows employers who hire targeted individuals, such as welfare recipients, veterans, and certain disadvantaged youths, to deduct from taxes owed 40 percent of the first $6,000 in wages paid to those targeted employees who work more than 400 hours a year. For employees who work less than 400 hours but more than 120 hours, a credit of 25 percent of the first $6,000 is available. Employers cannot claim both the Welfare-to-Work and Work Opportunity tax credits for the same worker.

—*David Warner*

FOR THE RECORD

■ **The Occupational Safety and Health Administration,** under a provision included in a recently enacted government funding bill, is banned through Sept. 30 from issuing regulations that would establish a workplace ergonomics standard. OSHA has been working on an ergonomics standard for the past three years.

An amendment to the Labor, Health and Human Services, and Education appropriations measure, approved by Congress and signed into law in early November, prohibits OSHA from issuing regulations that would require businesses to modify workplaces and redesign jobs that pose ergonomics hazards. The prohibition is in effect for the 1998 federal fiscal year, which ends Sept. 30.

Congress encouraged OSHA to use the regulatory hiatus for careful study of scientific findings on the relationship between work and repetitive-stress injuries, which can include conditions such as carpal-tunnel syndrome and tendinitis.

—*David Warner*

■ **Congress adjourned for 1997** without passing a successor to the six-year federal transportation-funding measure that expired Sept. 30, but lawmakers freed nearly $10 billion to allow states to continue vital road- and bridge-construction projects through this March.

The stopgap bill was designed to put pressure on senators and representatives to approve a multiple-year transportation measure in early 1998. If the U.S. economy remains strong, some lawmakers will seek a significant increase in transportation spending for at least the next three years to jump-start projects backlogged in virtually all states. However, many legislators want to set spending within the guidelines of the 1997 balanced-budget agreement.

—*Steve Bates*

Managing Your Small Business

Creative and confident goal-setting; dealing with the loss of a sale; tapping wellsprings of innovation.

CONTRACTS

Setting Your Sights High To Pull Rabbits From A Hat

How do you land an "unobtainable" contract?

"Go after something you really like and understand," advises John Chester, president of Wild Apple Graphics of Woodstock, Vt.

The small company recently gained the exclusive license to print and sell posters of Beatrix Potter's famous animal characters—including Flopsy, Mopsy, Cotton-tail, and Peter Rabbit—in North America and parts of South America.

Your goal, Chester says, "also has to be something you'd be proud of doing, not just something to make money." And don't be afraid to "set your sights high," he says, or you might aim too low.

"Beatrix Potter characters are among the best-known in the world," Chester says. "They are marketed by such well-known companies as Wedgwood, Bulova, Hallmark, and Crabtree & Evelyn. So everyone thought it was laughable that we'd even ask for this account, but we did—and look at the results."

Chester and his wife, Laurie, the company's creative director, started Wild Apple in 1970. Now they publish the works of more than 75 living artists and parts of collections such as those of the Victoria and Albert Museum in London and the Museum of American Folk Art in New York City. They sell their "decorative art" posters around the world.


PHOTO: ©ALAN JAKUBEK

Persistence paid off *for Wild Apple Graphics' Laurie and John Chester when they secured the rights to make and market posters of Beatrix Potter characters.*

To land the Potter account, the Chesters began meeting regularly with managers of Copyrights America in Morristown, N.J., the U.S. subsidiary of Copyrights International, the agent for the company that holds the Potter trademark and copyright. Their goal was to build a strong relationship. They followed up weekly with telephone calls in which they constantly exhibited a positive and professional attitude.

They made it clear that they respected Potter and would maintain the integrity of her characters.

Ultimately, "they liked three things about us: our level of quality, our attention to details, and the way we advertise and promote," Chester says.

The arrangement required Wild Apple "to be more flexible than we usually are," he says. For example, because the company gained only limited geographical rights to distribute the characters' images, Wild Apple could not include them in its conventional catalogs or sell them through its usual network of representatives.

Still, the deal is well worth it to the Chesters. After all, how many entrepreneurs ever get to go into business with true legends?

—Thomas Love

SUPERVISION

Helping Sales Employees Overcome Rejection

When a sales staffer's deal falls through, it can be demoralizing and can affect performance, or it can be handled simply as a survivable occurrence. It all depends on how managers deal with the situation, says Steve Schiffman, president of DEI Management Group, Inc., a sales-training firm in New York City.

"When salespeople lose a sale, often the first thing that happens is that the small-business owner or their sales manager blames them," he says. It's a typical reaction but an unproductive one, says Schiffman.

He recommends three steps that managers can take to keep rejection from adversely affecting their sales-staff members:

■ Be familiar enough with the progress of various deals to know when one is in jeopardy. This enables you to intervene soon enough to try to salvage it or to prepare for the fact that it isn't going to work out.

■ Work with salespeople regularly to make sure they have enough leads and prospects to keep the loss of one sale in perspective. If a salesperson counts too much on any one sale, there probably isn't enough regular advance work being done to generate new sales.

■ Don't react with anger. "Rejection is a combination of frustration, humiliation, and anger. Having a manager respond in a hostile way to a lost sale only adds to those feelings," Schiffman says. "It's best to help the person focus on getting back to selling."

—Roberta Maynard

INNOVATION

Generating Inspiration Close To Home

Terry Richey would like to find the next big idea that could help overhaul a company's product line or even shake up an entire market. But there's one thing he would like even more: for small-business people to find that big idea themselves.

Richey, a consultant who promotes innovative thinking, tries to shake up the mind-set of his clients—to have them step back and reassess their approach to their products and services.

Often he is brought in by a company to help it adjust marketing strategies that aren't working. His frequent advice to clients is to reassess whether their product or product line is right and what the next one should be rather than focus exclusively on how to unload a warehouse full of widgets.

This might not always be what the executives want to hear, but it likely is what they need to hear—and to take to heart, says Richey.

"Innovation is not a one-time event," he says. "Most ideas don't work; most innovations fail." Small and large companies alike must be flexible enough to try bold new ideas and to toss them aside if they don't work.

Sooner or later, something will strike a chord, Richey says. "If something comes up that makes the executives in the room nervous, then you know the idea may have merit."

Richey's reputation is the only marketable asset of his one-man operation—Timberline Strategies, based in his mountaintop home near Santa Fe, N.M. Though he has broadened his client list of generally small companies to include some large corporations—General Mills, Hallmark Cards, and Sprint Corp. among them—he's still only one player in a large field of consultants on creative thinking.

If one thing sets him apart, however, it is his recent annual report. The document contains no numbers. It was distributed to no stockholders (there are none). But at about 5 inches square, bound in imitation leather and twigs, and containing examples of creative business approaches, it's a unique tool designed to attract new business.

PHOTO: ©TONY O'BRIEN

"The capacity to be very creative *is inherent in everyone," says Terry Richey, a Santa Fe, N.M., consultant who encourages clients to be innovative.*

Richey, 48, who five years ago traded a smooth-running advertising agency in Kansas City, Mo., for an uncertain future as a consultant, finds much of his inspiration in nature. Pensive walks in the woods near his Santa Fe home prompted the earthy appearance of, and advice in, the annual report.

To innovate, Richey says, business people must be open to "accidentals"—unanticipated events, no matter how small, that can point to big results. He cites the example of a delivery-truck driver who was wise enough to be inspired by something that easily could have been overlooked:

Clay Mathile delivered mink food to ranches in Ohio. Dogs collected around his truck when he arrived at his stops. At one, he noticed that the dogs' coats were unusually shiny and healthy-looking. He learned that the rancher fed some of the mink food to the dogs.

The result: The Iams Pet Food Co. "Clay comes face-to-face with an 'accidental' that will change his life and make him one of the richest men in America," writes Richey in the annual report. In a "balanced approach to business and life, we see accidentals as tiny sign posts alerting us to other paths and possibilities."

Richey notes, however, that in many companies—particularly large ones—innovation isn't given much of a chance to blossom.

"It's surprisingly rare. Innovative people often have a very difficult time with the corporate culture," he says. "A lot of corporations use consultants for that type of thinking. They would be much better off using people they have, who are the best thinkers."

For small businesses, "innovation is often the only real ingredient that allows them to be successful against larger competition," adds Richey. All too often, he warns, "as a business grows, it loses its creativity."

"The capacity to be very creative is inherent in everyone," Richey says. Yet sometimes the most innovative ideas are surprisingly simple: a metaphor, a symbol, even a color can be the focus of a marketing strategy.

He cites the example of a catalog that was being designed for Macy's kitchenware. A creative team came up with three ideas, and all were shot down in flames. Amid the chaos of discussion, someone started unpacking samples for photos, and by coincidence five red products ended up next to one another. An art director wondered aloud, "What if everything in the catalog was red?"

They did the catalog that way, and it became a big success.

Richey, whose site on the World Wide Web is at *www.rt66.com/overlook*, doesn't promise miracles to his clients. He does pledge to provide advice in terms as basic as the color red. "I'm a professional simplifier," he says.

—Steve Bates

NB TIP

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COVER STORY

Is Your Company Keeping Pace?

By James Worsham

The economy has been on a roll for almost seven years, and it's expected to keep growing, though a bit slower, through 1998. How about your company? Has uninterrupted national prosperity made it difficult to keep pace with demand, your competitors, and perhaps even your own past performance?

Sustained growth has created an unusual set of challenges:

- Intense competition for workers in a tight labor market.
- Pressure to keep prices down to prevent customers from switching to the competition.
- A flood of low-cost imports attracted by a strong dollar.

If you find it hard to be as optimistic as you were last year, you're not alone. Polls and surveys show that business owners and managers are less optimistic than they were 12 months ago, but they're still expecting a year of growth in sales and profits.

Small businesses have reason to be both cautious and optimistic. The same challenges they face today are expected to continue through 1998. A shortage of qualified workers will keep pressure on employers to increase wages and benefits. But boosting prices to pay for higher salaries will be hard with bargain-conscious consumers poised to switch to less-costly imports.

CHARTS AND ILLUSTRATIONS: ALBERTO PACHECO

For now, experts are forecasting a slowdown in U.S. economic growth in 1998 to what they call a more sustainable rate of 2.5 to 2.9 percent, compared with 1997's expected rate of 3.7 to 3.8 percent; the final growth rate for 1997 will be announced in late January.

A slower growth rate, economists say, would reduce the chances that inflation would be fueled by companies having to pay higher wages to attract scarce workers. And with inflation in check, the Federal Reserve Board would be less likely to boost interest rates.

Many economists consider the expected slower pace an economic comfort zone for small businesses—not too fast or too slow.

"The economy will slow to a growth rate that is sustainable," says Joel L. Prakken, chairman of Macroeconomic Advisers in St. Louis.

Mark Zandi, chief economist for Regional Financial Associates in West Chester, Pa., says that with regard to the risk of recession, "The economy's really home free through the end of 1998."

Economists caution, however, that external factors—such as a war, continued financial disasters overseas, or an interruption in oil supplies, all of which appeared on the horizon in late 1997—could dramatically change all forecasts.

The economy was nudged in the direction of the expected slowdown in late October when public reaction to the stock-market plunge provided "a significant negative psychological effect" on consumer spending, says Sung Won Sohn, chief economist for Norwest Corp., a Minneapolis-based financial-services firm. Consumer psychology is important because consumption accounts for two-thirds of the gross domestic product (GDP), the broadest measure of the nation's output of goods and services.

Stock-market turmoil also helped persuade the Federal Reserve Board in mid-November to hold the line on interest rates.

Small Business Outlook 1998

The good economic times are expected to continue—at a slightly abated rate—in 1998. But sustained growth has created new challenges for small businesses.

Fed Chairman Alan Greenspan told Congress that the late-October plunge might even be viewed someday "as a salutary event"—one that will prove good for the economy in the long run.

Keeping pace with the competition in today's economy should be manageable for those who remain focused. For now, all the economic forces are in balance, and there's no end in sight to the current business expansion, which enters its eighth year in March and is the third-longest since World War II.

"We have an economy that's growing, creating jobs, and as yet not giving rise to significant inflation," says Martin A. Regalia, vice president and chief economist of the U.S. Chamber of Commerce. "Can it last? Yes, it can, but probably not forever."

The Chamber is slightly more optimistic than the consensus forecast of 51 business and academic economists surveyed monthly for *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*, both issued by Capitol Publications Inc. of Alexandria, Va.

The Chamber estimates that the GDP will show an increase of 3.8 percent for 1997 over 1996 once final figures are in, while the *Blue Chip* forecast puts 1997 GDP growth at 3.7 percent.

For 1998, the business federation expects the GDP to gain about 2.9 percent over 1997; the *Blue Chip* forecast projects 2.5 percent. (See the chart on Page 14.)

"The forecast for 1998 is still a very solid one," says Randy Moore, the top editor of the two *Blue Chip* publications. Growth in 1998, he says, is expected to return to nearly a "trend growth rate," in which the economy can grow without producing inflation and the unemployment rate remains steady.

Here is a summary of major factors contributing to the outlook for 1998:

Unemployment: The U.S. jobless rate in November was 4.6 percent, the lowest in nearly a quarter-century. Total nationwide nonfarm employment was about 123.4 million in November. (Statistics on farm employment take longer to compile and typically are excluded in the federal government's employment report.) Throughout 1997, net new jobs averaged several hundred thousand a month.

Employment Costs: The Employment Cost Index, which measures total worker compensation, rose 3 percent in the third quarter of 1997 compared with the same quarter a year earlier. It was the highest quarterly rise in several years but was still below quarterly increases of 4 percent or above in the early 1990s.

Inflation: The rise in the Consumer Price Index, the most widely used index of inflation, held at or below 3 percent throughout 1997 and is posting its lowest rate of increase since 1986.

Some economists fear, however, that inflation could accelerate this year if employers bid up wages to attract qualified workers. There's even concern that El Niño-spawned storms could ruin food crops in California this winter, creating retail food shortages that could push up the inflation rate in 1998.

Productivity: Workplace productivity rose at a 4.1 percent annual rate in the July-September quarter of 1997, the fastest quarterly pace in five years, according to the U.S. Bureau of Labor Statistics. Third-quarter productivity was up 2.4 percent from the same period in 1996.

Personal Income: Real disposable personal income rose at an annualized rate of only 2.9 percent in the third quarter of 1997, slightly lower than the rate of the two previous quarters. The *Blue Chip* forecast calls for a 2.9 percent rise for the full year, the same as in 1996, but a lower increase for 1998 of about 2.7 percent.

Interest Rates: Rates remained steady throughout 1997. The prime rate, for example, rose by only one-fourth of a percentage point, to 8.5 from 8.25 percent, and yields on three-month Treasury bills were in the range of 4.9 to 5.2 percent through October. Many economists forecast a slight increase in interest rates in 1998.

Imports And Exports: The U.S. trade deficit for goods and services worsened in September as the troubled Asian economies hurt sales of American exports while the strong U.S. economy boosted imports. In September, the trade deficit hit an eight-month high of $11.1 billion.

Consumer Confidence: The Consumer Confidence Index, produced by the Conference Board, a business-research organization in New York City, rose in November to 128.3, wiping out most of October's decline. Two components of the

Continued on Page 18

The Outlook By Regions

Percentages Are GDP Increases Over The Previous Year

1997 Estimate	1998 Projection

WEST NORTH CENTRAL 3.7% 1.9%

The Plains states have the tightest labor market in the country, and growth has slowed as a result. "We've got more jobs than we've got people," says David S. Dahl, an economist with the Federal Reserve Bank of Minneapolis. The overall economy is healthy, however, and it boasts the highest level of consumer confidence among all regions.

Labor shortages are pushing up wages, says Iowa state economist Harvey Siegelman, and "it's absolutely ludicrous to think you could get workers at the minimum wage." In Kansas, Wichita is benefiting from heavy hiring at The Boeing Co.

MOUNTAIN WEST 5.8% 3.8%

The Mountain West continues to lead all regions in growth, with such hot spots as Salt Lake City, Las Vegas, and Phoenix. "What's happening in the West is tremendous economic diversification," says Phil Burgess, president of the Center for the New West, a Denver policy-research organization. Deregulation in telecommunications, transportation, and financial services helped to end the region's isolation, he says, and technology and telecommunications firms continue to invest in the Mountain States.

Arizona, the region's most populous state, is benefiting from the aviation and high-technology industries. But Marshall Vest, forecasting project director at the University of Arizona in Tucson, says that while "Arizona's growth has been phenomenal," now there's a shortage of a key ingredient for growth—workers.

"We're running out of supplies, not demand," he says.

PACIFIC WEST 4.5% 3.6%

The West Coast economy is booming. California's resurgence is based on industries that are growing globally, such as movies and high technology. Increased trade with Asia is also boosting the state's economy.

Big defense cuts have bottomed out, and the state is now adding jobs and income faster than the national average, says Stephen Levy, director of the Center for Continuing Study of the California Economy in Palo Alto. The challenge in 1998, he says, will be: "How are we going to handle all this growth without it having a negative impact on our lives?"

In the Northwest, Portland is seeing growth in the semiconductor business, while the Seattle-Tacoma area is in the midst of a hiring boom at The Boeing Co. and Microsoft Corp. that could go on for several years, says Lynn O. Michaelis, director of marketing and economic research at the Weyerhaeuser Co. in Tacoma.

The heavy hiring has created a boom in commercial construction. "It can't get much better," Michaelis says. "Now we've got too much of a good thing; it's pushing the limits on our infrastructure."

WEST SOUTH CENTRAL 4.9% 3.2%

The robust Texas economy dominates this region, an area benefiting from the oil and gas boom, growth in technology industries, and increased trade with Mexico under the North American Free Trade Agreement.

Manufacturing is moving into the corridor between Austin and the Dallas-Fort Worth area, which in turn is "doing exceptionally well," says Jared Hazelton, director of the Center for Business and Economic Analysis at Texas A&M University in College Station. And he notes the "tremendous presence" of medical research in Texas.

Along the Gulf Coast, energy exploration is in high gear. Dale Davis, chief economist for Halliburton Energy Services in Houston, is forecasting more good times. "It's going to be very good for Texas and the oil patch [states]," he says. "It's a major driver behind their economies."

EAST NORTH CENTRAL 3.6% 2.7%

The manufacturing-centered Great Lakes region continues a moderate but respectable growth rate. The area is "growing at a very solid pace," says Ron Luginbill, manager of forecasting for Ameritech Inc. of Chicago. Employment expansion in this region is below the national rate because of a severe shortage of skilled workers, especially engineers.

Bernard Lashinsky, a consultant and former chief economist with Inland Steel Corp., says the automobile industry continues to invest in the region and that sales of capital equipment, such as heavy machinery and machine tools, continue to do well at home and abroad. He adds: "I don't know of any area of weakness."

NEW ENGLAND 3.4% 2.7%

The once-struggling New England economy is growing at a moderate pace. Boston is booming, with tight markets for office space and labor. Southwestern Connecticut (close to New York City) and New Hampshire are doing well. "It's a very strong economy here," says Yolanda Kodrzycki, senior economist at the Federal Reserve Bank of Boston. "Sector by sector, it's comparable to the nation as a whole."

The region's economic vitality is not dominated by any one industry, notes Bruce Blakey, corporate economist for Northeast Utilities, one of New England's largest electricity providers. "There are lots of small businesses in lots of different industries doing well in the Boston area and to a lesser extent in Connecticut," he says.

3.7% 2.7%

MIDDLE ATLANTIC 2.9% 2.1%

Although the Middle Atlantic States have had the slowest economic growth and the lowest level of consumer confidence (as measured by the Conference Board) of all the regions, signs of rebound are appearing—across New York, for example. "We still have a ladder to climb, but we are climbing up," says James Gray, executive director of the Empire State Business Alliance. Aided by a tight market for office space and the boom on Wall Street, New York City and Western Long Island are showing the strongest job growth. In addition, state tax and regulatory reforms are helping all of New York.

In Pennsylvania, bright spots of growth are appearing outside Philadelphia and Pittsburgh, in places such as Allentown, Scranton, and York. Says Russ Sheldon, senior economist at Pittsburgh's Mellon Bank: "Some of our lower-cost cities are doing very well."

SOUTH ATLANTIC 4.4% 3.1%

The South Atlantic region is mixed. Job loss continues in the apparel industry, especially in North Carolina, although "the worst of the blood bath is over," says Gary Shoesmith, director of the Center for Economic Studies at Wake Forest University in Winston-Salem, N.C.

Virginia's growth is being led by expansion in the northern sectors that border Washington, D.C., even though the capital remains in financial straits.

Georgia is coming back after a post-1996 Olympics slump. Florida is booming with increased tourism and a larger role in international trade as Latin American markets expand.

Says Lynn Reaser, chief economist with Barnett Banks Inc. in Jacksonville, Fla.: "Florida will probably be one of the strong states in the nation and will lead the Southeast in 1998."

EAST SOUTH CENTRAL 3.4% 2.2%

Job growth is below the national average, partly because of a loss of many textile jobs. John Logan, executive vice president for investment at First American National Bank of Nashville, Tenn., says that although the North American Free Trade Agreement has helped other regions, "it's looking like the Mid-South has been hard-hit by the effects of NAFTA."

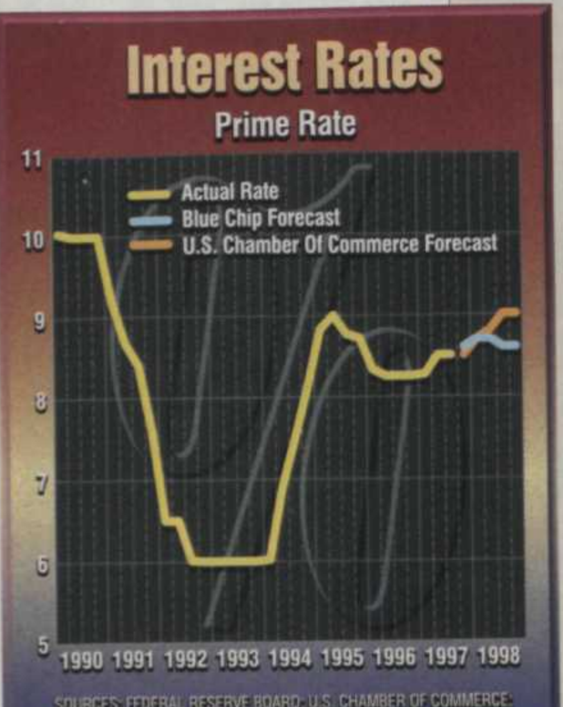
Tennessee saw little job growth during most of 1997 and is now finding home construction pushing ahead of demand, says Al DePrince, a professor of economics and finance at Middle Tennessee State University in Murfreesboro. "We'll begin seeing excess capacity in the housing market," he says.

Kentucky, bordering on three Great Lakes states, continues to have strong job growth.

SOURCE OF ESTIMATES AND PROJECTIONS: REGIONAL FINANCIAL ASSOCIATES

Continued from Page 15
index show that consumers are more confident about the present than about the future.

Business Confidence: There has been some slippage here. The U.S. Chamber's bi-



SOURCES: FEDERAL RESERVE BOARD; U.S. CHAMBER OF COMMERCE; BLUE CHIP FINANCIAL FORECASTS

monthly Business Confidence Index dropped from 64.1 in August to 60.9 in October after rising continually earlier in 1997. But the index was still above its April and June levels. And the National Association of Purchasing Managers index, which indicates whether the economy is on the verge of contracting or expanding, declined in November to 54.4, a sign of a slowdown in manufacturing. (Fifty or above indicates growth, and the index registered above 50 throughout 1997.)

One key not only to keeping pace with the competition but also to getting ahead of it is the quality of your work force. But finding and retaining valued employees will be hard. Across the country, unemployment is at its lowest level in decades.

"We've used up all the spare bodies," says David Birch, president of Cognetics Inc., a Cambridge, Mass., economic-research firm. "If you're a small firm and competing in a tight market, you've got problems." (For help, see "Smart Tactics For Finding Workers," Page 20.)

More than 2.5 million full-time nonfarm jobs were added to the U.S. economy in the first 10 months of 1997, according to the Bureau of Labor Statistics. From 1992 through 1996, businesses with fewer than 100 employees accounted for 83 percent of the jobs created in the U.S. economy, according to Cognetics.

But Birch says job creation will slow because workers won't be available to fill new positions. Stepped-up education and training or more-liberal immigration policies could help alleviate the shortage, he says, but without qualified workers, many firms will move jobs overseas where they can find employees.

Being unable to fill jobs poses a particular danger for small firms trying to grow. "If you have to go deep into the labor pool and hire unqualified workers, the risk goes up," says Nancy Pechloff, the St. Louis-based managing director of the Arthur Andersen Enterprise Group, a financial-services provider for companies.

The Chamber's Regalia says the labor shortage has led to a "bidding up for available workers" and that wage levels are starting to grow. But, he says, these factors haven't been inflationary so far: "Productivity increases have kept recent wage increases from triggering inflation."

Indeed, the Federal Reserve Board reported in December that although many companies are struggling to find qualified workers, in most of the country and in most industries this is "not translating into generally higher wages."

Even if your company has been able to keep pace with the competition for now, that ability might not last indefinitely, and you, too, might turn to downsizing. Just as many companies struggle to fill their jobs, other firms continue to

Watch The Details, Stay Nimble

Today's fast-moving, competitive global economy requires small-business owners and managers to pay more attention to details than ever before. That means being able to move quickly to make new investments or offer new products or services—or even to survive a downturn.

Are you ready?

You can decide by asking yourself the following questions. Under each question, banker Lynn Harton suggests answers that business owners should be able to give if they want to take advantage of potential opportunities in 1998. Harton is senior vice president for small-business banking at BB&T, a bank based in Winston-Salem, N.C., and serving the Carolinas and Virginia.

1 ***How well do you know your banker, and how well does he or she know you and your business?***
You should know a banker before you need a loan. Bankers are more receptive to business owners who are already customers than to those who walk in off the street.

Also, keep your banker apprised of your business, even when you're not looking for a loan, so that when you do seek a loan, he or she will know your financial situation and plans.

2 ***Do you have an accountant? If so, how good is he or she?***
You'll stand taller in your banker's eyes if you have a good, reputable accountant who keeps your financial affairs in order. "The benefit [that a good accountant] can bring not only to financial planning but the banking relationship is important," Harton says.

3 ***How often do you, your banker, and your accountant get together?***
Getting your banker and accountant together yearly is important so that the three of you can speak frankly about your plans without your having to serve as an intermediary between them.

4 ***Could you produce quickly the numbers that show the source of profit in your business?***
If you're looking for a loan and don't know where your profits are coming from, you're probably going to have a rough time. Know which products, services, or locations are the most profitable and which are not. Bankers and investors will want such data before committing money to you.

5 ***Is your company following a business plan?***
Most of the time, a banker won't ask for a business plan unless you're planning a new venture unrelated to your current business. But Harton warns that it's good for you to know what's going on. "You should never have to produce for the bank something you're not already producing for yourself," she says.

lay off thousands of workers.

Some companies choose work-force reduction to increase profits or stem losses. Others adopt the tactic to "right-size" their firms after mergers or acquisitions.

In November, for example, Eastman Kodak Co., based in Rochester, N.Y., announced the layoff of 10,000 employees, more than 10 percent of its worldwide work force. The same day, Chicago-based Fruit of the Loom, Inc., said it would eliminate 2,900 textile jobs on top of 4,800 it had targeted in the summer.

Downsizing will continue to be a part of the economy in 1998, but it won't be confined to headline-making reductions by big corporations. "Small companies are just as susceptible to the decision to cut back on people," says John A. Challenger, executive vice president of Challenger, Gray & Christmas, a Chicago outplacement firm.

Challenger says small firms may come to rely more on part-time workers and individuals hired for a specific function that doesn't require full-time status.

Despite the recent layoffs, a study by the American Management Association (AMA), a New York City-based research and service group, showed that in the 12 months ending June 30, 1997, major U.S. companies created twice as many jobs as they cut.

The AMA study also showed that hourly wage earners filled 62 percent of the new jobs but held only 55 percent of the eliminated jobs. Salaried professionals and technicians took 22 percent of the new jobs, compared with holding only 14 percent of the eliminated jobs. Meanwhile, managers and supervisors got only 16 percent of the new jobs though they held 32 percent of the eliminated jobs.

As the Cognetics data show, small firms continue to create most of the new jobs, and they are expected to be the main job-creation segment in the future if they can find the employees to fill the jobs.

"Your growth will be constrained by your ability to staff it," says William Dunkleberg, a professor of economics at Temple University in Philadelphia and a small-business authority.

But Gerald Celente, director of the Trends Research Institute in Glenford, N.Y., sees a significant opportunity for small firms. He believes they will benefit from the fallout of corporate megamergers by finding markets that the megafirms don't want.

"With all the mergers and acquisitions, it's financially not profitable for large companies to go into market segments that are too small for them," he says, and that means "good times for small business." NB

To order a reprint of this story, see Page 41. For a fax copy, see Page 31.

Keep Your Options Open

Here are some suggestions from various experts that can help small businesses make the most of the new year as the economy continues to grow:

Take care of your employees. In a tight labor market, small-business owners and managers must come up with ways to attract and retain valued employees.

Doing so will require more than providing competitive wages. You'll need to shop for the best health-care coverage, pension plans, and savings and investment plans. And you'll need to give workers time off for things that are important to them.

Says Steve Alesio, president of American Express Small Business Services: "Benefit packages are going to be as important for small businesses as they have been for large businesses."

Find a source of temporary help. If you think you may need temporary workers, find a good staffing firm and establish your company as a client before you become desperate.

Staffing firms take better care of established customers than they do of those who call on the spur of the moment.

"Form a strategic alliance with a reputable company with a good standing in the marketplace, and share your time schedules with them in advance," says Jay Finkleman, a senior vice president of Kelly Services Inc., a major temporary-staffing company.

Have some liquidity. You should have access to investment capital to take advantage of opportunities that might come your way; if you lack ready cash, you may have to pass up a good opportunity to expand your market or product line.

"Small businesses need to have the liquidity to grow if opportunities exist or to maintain or sustain themselves—or just to get through a bump in the road," says Alesio.

Worry about the competition. Keep yourself informed about your firm's competition and the latest developments in your industry.

"You have to have almost a daily awareness of what's going on," says John N. Evans, the New York-based deputy director of the Arthur Andersen Enterprise Group, a financial-services provider for small and midsize firms. Ask questions such as, "What am I going to do if I lose my principal customer?"

Focus on the things that make your firm profitable, Evans says.

Look to campuses. Find out if researchers at nearby universities are coming up with anything you could develop into products or use to improve the products you already have.

"The best ideas are coming out of university laboratories, and American companies are oblivious to it," says James O. Roberson, president of Research Triangle Park, a research and development center for 133 organizations in the Chapel Hill-Raleigh-Durham area of North Carolina. "There are real opportunities for small businesses there."

Smart Tactics For Finding Workers

Even when labor is in short supply, recruitment tools are plentiful—and workable.

By Thomas Love

The decline in the U.S. unemployment rate to 4.6 percent could complicate the already difficult task for many small-business owners trying to find good workers.

But entrepreneurs shouldn't despair. Although they may lack the personnel departments and recruiting budgets of large firms, they enter the battle for talented workers with other powerful weapons.

"The top way to recruit is to go to the people who work at your organization and appreciate you as a boss," says John Challenger, an owner of Challenger, Gray & Christmas, a nationwide executive-search and outplacement firm based in Chicago.

Employers such as Raul Fernandez concur about the value of employee referrals. He is president of Proxicom Inc., a seven-year-old firm in Reston, Va., that provides Internet-related services. Internal advertising is his No. 1 source of recruitment, he says. "People are happy to work here, so they refer their friends here for jobs. That's a great sign for our company."

PHOTO: DKEN TOUCHTON

Employee referrals *and résumés on the Internet help Raul Fernandez keep positions filled at Proxicom Inc., an Internet-services provider.*

Trying Harder

Companies looking for workers in a tight labor market should use the same tools they would employ when workers are plentiful, notably newspaper advertisements and employment agencies, says Ken Goldstein, an economist with The Conference Board, a business-research organization in New York City. The difference, he says, is that when workers are scarce, employers have to "beat those bushes harder" to get results.

Entrepreneurs should borrow techniques from professional recruiters, Goldstein says, such as approaching employees of the firm's competitors and suppliers. "If you're looking for salespeople, ask suppliers the names of good people who have called on them lately; if you're looking for technical people, ask about people who have come in to service their equipment," he says.

Goldstein also suggests approaching retirees and others "who have worked for you before. Don't let them slip away." And be creative, he says. "One company advertised over the sound system during a San Francisco 49ers game. A California company flew a plane down the beach with a help-wanted banner behind it." He says one airline has asked passengers to become headhunters and to submit résumés.

When recruiting gets really difficult, entrepreneurs have to "cast a wide net, and there is none wider than the World Wide Web," he notes. "Put an ad on the Internet and hope someone, somewhere will look at it and apply for the job or at least know someone who will."

Internet recruitment has been "extremely effective" for his firm, says Proxicom's Fernandez, who often uses CareerBuilder (*www.careerbuilder.com*). Among the many other employment sites on the Internet are The Monster Board (*www.monster.com*) and Career Mosaic (*www.careermosaic.com*). About one-third of the commercial Internet sites do not charge for listings; the typical fee charged by the rest is $25 to $150.

Less Conventional Sources

Arte Nathan, vice president for human resources at Mirage Resorts in Las Vegas, is tapping an even more innovative source: nonviolent first offenders who were sentenced to—and graduated from—a Marine-style boot camp rather than a prison.

Nathan says a number of states have instituted similar boot-camp programs, but he warns that it's the responsibility of employers to work closely with parole officers and other court representatives to identify graduates who will make good employees.

Barry Lawrence, spokesman for the Society for Human Resource Management, an 80,000-member professional organization in Alexandria, Va., says its members have found that state welfare rolls can be a source of employees, although he says it's too early for hard data on how they have fared in the workplace. (For more on the topic, see Page 10 of Dateline: Washington.)

"The important thing there is to be early out of the gate," he says, to capture the best of the lot. After that, he concludes, you'll have an increased chance of running into people with serious problems that might make them unemployable.

Employers should bear in mind, says Lawrence, that "it's very important to look at the other side of the question. You can recruit like crazy, but you also have to pay attention to the people you have because you don't want them leaking out the back door. If you make some real retention efforts, you won't have to worry so much about recruiting." NB

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Employees respond to financial incentives; higher 401(k) contribution limits; deducting year 2000 costs; the rewards of stock charting.

Gain-Sharing Encourages Productivity

By Abby Livingston

When food costs began to spiral out of control at Katzinger's Inc., a 100-seat restaurant and delicatessen in Columbus, Ohio, owners Diane and Steven Warren consulted their 37 employees.

"We said, 'You guys reduce food costs down below 35 percent [of total sales], and we'll split the [savings] with you,'" Diane recounts.

The employees quickly suggested several cost-cutting ideas, including matching perishable-food orders more closely to expected sales. This saved money by reducing waste.

In the first month, food costs fell 1.7 percentage points—and employees took home about $40 each as part of the company's new gain-sharing plan. Since then, monthly payouts have been as high as $95. (There were two months in which the employees did not earn payouts.)

"It was a good thing," says Diane. "We reduced food costs and got the employees to begin thinking about how the business functions."

Like other small-business owners, the Warrens have found that a pay-for-performance bonus system—such as gain-sharing, in which a cash bonus is paid for meeting specified productivity goals—can be a powerful way to improve company performance and increase employee involvement.

"Any methodology that makes employees more educated about the bottom line, business processes, and customers is bound to be a powerful managerial tool," says Marc Wallace, founding partner of the Center for Workforce Effectiveness, a Northbrook, Ill., consulting firm that specializes in compensation, rewards, and work-force effectiveness. "Gain-sharing and newer variations, like goal-sharing programs, fit this bill. They create a financial win-win for both the owner and employees because the payout is contingent upon performance."

The notion of offering employees incentives for helping to reduce costs can be traced to the Depression, when Joe Scanlon, an executive of the United Steel Workers Union, began looking for ways to get hourly workers and management working together to make plants more productive. He came up with the idea that workers would be entitled to share in the dollar value of any improved productivity—hence the term gain-sharing.

Today, many service companies are embracing the idea of gain-sharing as a way to reduce fixed labor costs. But the single-minded focus on cutting costs has fallen by the wayside. "If all a company does is measure costs, it will go out of business," says Wallace. "You have to focus on quality and customer-service improvements. Otherwise, you end up cutting corners on quality and making customers angry."

That's why experts such as Wallace prefer the terms goal-sharing, variable pay, or incentive pay to that of gain-sharing.

Regardless of the term, however, there are certain recommendations common to the establishment of all types of pay programs:

Keep it simple.

Pick three to five key business factors that are critical to your company's success. "A manufacturing department might focus on reducing costs and cycle time, and improving the percentage of work completed on time," says Larry Montan, a compensation specialist in the Minneapolis office of the Grant Thornton accounting firm.

"An office staff," he says, "might focus on meeting pro-

PHOTO: JIM CALLAWAY

Deli co-owner *Diane Warren serves a portion of the savings to her employees when their ideas help her cut costs at Katzinger's in Columbus, Ohio.*

ject-milestone dates, and a sales department might focus on account growth, penetration, and retention."

Don't complicate the process by asking employees to meet more than five objectives or to meet goals outside their sphere of influence or control. "Someone responsible for materials handling in Harrisburg, Pa., shouldn't have his or her bonus tied to an increase of units shipped to Europe," says Montan.

What's more, he says, the plan's goals should be easy to understand. "Production workers should be able to take the plan home and have their spouse understand it."

> "A plan designed exclusively by consultants or senior managers gets little buy-in from the work force."
>
> —Vince Bovino, Bovino Consulting Group

Establish realistic goals or performance targets.

Once you know what you want to measure, the next step is to figure out how. Measurements can be calculated in terms of increased units, dollars, or accounts produced. Then come up with a realistic measure of success—your goals or targets.

"Let's say a manufacturing plant is focusing on improving quality and customer service," says Montan. "An annual quality goal could be a 15 percent reduction in scrap or having the plant pass an ISO [quality] audit. A customer-service goal could be getting 98 percent of orders shipped on time."

You'll need to set both short-term (such as monthly) and long-term (annual) goals. And, of course, goals will change over time as employees become more efficient.

In the meantime, measuring productivity improvements means that management needs to spend time collecting internal financial and performance data and sharing it with employees. "If you're not willing to share that kind of information, employees can't make good decisions and do effective problem-solving," says Thomas J. McCann of Thomas J. McCann & Associates, a consulting firm in Allentown, Pa., that specializes in reward systems.

Enable employees to have an impact.

Because employees may be your best source of ideas for improving productivity, their involvement can make or break your incentive plan.

"A plan designed exclusively by consultants or senior managers gets little buy-in from the work force," says Vince Bovino of Bovino Consulting Group, a Coeur d'Alene, Idaho, firm that specializes in establishing variable pay systems. "Employees have to believe that they can have a significant impact on performance."

That's why Bovino recommends setting up cross-functional teams of employees, up to 14 people each, to assist in designing and administering the plan.

A case in point: While the managers of Katzinger's Delicatessen understood what was being wasted, they didn't know how best to implement controls. "So every manager met with their staff and came up with some ideas," says Diane Warren. "Some were amazingly simple, such as ordering fewer bagels so we wouldn't end up throwing so many away, and using the ends of tomatoes in soups and salads."

Involve all departments.

Although each department should create its own goals, a pilot program must encompass the entire organization. "It's virtually impossible to establish equity between 10 departments if each has a different pay model," says Bovino. "You need cooperation, not competition, inside the gate."

What's more, he says, the performance of one group often depends on, and is a function of, another group. If Department B gets a superior product from Department A, Department B performs well. If Department B gets an inferior product from Department A, Department B may still perform well but only with greater effort and cost.

Make it worth their while.

Many experts recommend that employees be given the chance to earn an amount equal to 4 to 8 percent of their pay through a pay-for-performance bonus program. The earnings pool can be formed in either of two basic ways: The employees receive a certain percentage—say, 10 percent—of any increase in profits, or they receive a cash bonus for achieving a goal such as a reduction in scrap.

Provide lots of feedback.

Because even the best plan can fail if employees are not motivated, there must be a continuing communications strategy. This can consist of a handbook detailing the plan, with specific examples outlining how it works and how bonuses are earned, and quarterly reports that inform employees about their progress.

Wallace of the Center for Workforce Effectiveness encourages a more visible form of feedback—putting up a chart that tracks a work group's actual performance compared with goals for any given cycle. "That way, when people come to work, they can't avoid getting feedback on their performance," he says.

And although bonuses are paid monthly or quarterly under most plans, Wallace contends that more frequent oral or written feedback is just as critical to a program's ultimate success.

"Even more important than the actual cash payout is the need to constantly communicate and understand the employees' impact on the business," he says. "Putting a plan out there without the communications piece would be like investing $10 million in a piece of equipment and never turning it on." ■

Abby Livingston is a free-lance writer in Scarsdale, N.Y.

PENSION PLANS

IRS Raises The Limit On 401(k) Contributions

The Internal Revenue Service has increased the limit on 1998 contributions that individuals can make to their 401(k) retirement plans but has left certain other pension-related limits unchanged.

Effective Jan. 1, the maximum annual pretax contribution by a participant in a 401(k) plan is raised to $10,000 from the previous level of $9,500. Under federal pension law, the IRS must adjust 401(k) contribution limits in $500 increments to offset the cumulative impact of inflation. The last adjustment was in 1996.

Because the pension law requires that the IRS apply different inflation-adjustment standards to different pension and benefit limits, the result is a hodgepodge of adjustments in which some limits are raised and others are not.

For example, the $30,000 annual limit on joint contributions from the worker and the employer to a defined-contribution retirement account, such as a 401(k) or a profit-sharing plan, was not changed. Also unchanged is the $6,000-a-year individual contribution cap for SIMPLE 401(k) and SIMPLE IRA retirement plans.

The IRS's definition of "highly compensated employees" remains unchanged at $80,000 or more a year in salary, bonuses, and other compensation. The definition is important because complex federal "nondiscrimination" rules typically limit the average 401(k) contributions by highly compensated individuals to 2 percentage points above the average contributions by lower-paid employees in a company.

According to a 1996 survey of employers nationwide by the Chicago-based Profit-Sharing/401(k) Council of America, the average 401(k) contribution rate by employees making less than $80,000 a year was 5 percent of salary. As a result of the federal nondiscrimination rules, the average highly compensated employee among companies surveyed could contribute no more than 7 percent of salary, the survey found.

Based on that 7 percent example, workers earning between $80,000 and $142,857 a year will be restricted by the nondiscrimination rules from making the maximum $10,000 annual contribution to their 401(k) accounts, according to David Wray, president of the Profit Sharing/401(k) Council. Wray predicts that many middle-level workers whose raises push them over the $80,000 threshold may be forced to reduce their contributions because of the nondiscrimination rules.

For example, an employee making $79,000 a year could contribute the $10,000 maximum, or 12.6 percent of salary. But if the salary were raised to $81,000, the employee would be categorized as highly compensated, and a 7 percent limit would cap his or her contribution at $5,670. In effect, the $2,000 salary increase would mean a $4,330 decrease in allowable pretax contribution to the 401(k) plan.

For those employees who cross the $80,000 threshold, the absence of any increase in the threshold "is significantly more important" than the increase in the maximum contribution limit for 401(k) plans, Wray says.

There also was no change to the $160,000 maximum annual salary cap for calculating the level of employee retirement benefits.

—Stephen Blakely

TAX DEDUCTIONS

The IRS's Ruling On Year 2000 Costs

By now most business people know about the year 2000 problem, in which software that tracks years by using the last two digits must be modified to recognize the year 2000. While business owners have been rushing to revise software, the Internal Revenue Service only recently ruled that the cost of fixing the year 2000 problem can be deducted in the year the cost was incurred.

The November ruling amounted to a change of course for the IRS. The agency initially leaned toward calling the year 2000 costs "improvements" that either prolong the life or increase the value of the software. As such, the costs would have to be depreciated over a number of years.

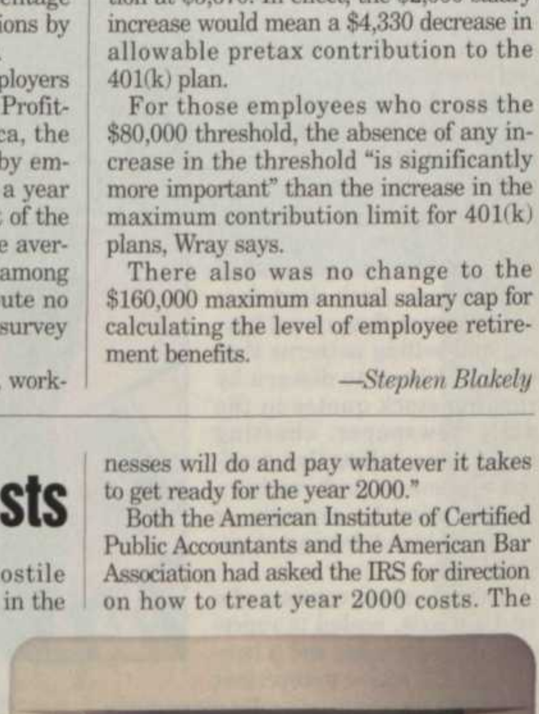
Immediate deduction of year 2000 costs appears to signal an IRS shift away from strict interpretation of a 1992 Supreme Court case on deductibility of business expenses. In *Indopco Inc. vs. the United States*, the court ruled that the legal and professional fees paid by a company to find a "white knight"—a friendly company to merge with—to fend off a hostile takeover bid could not be deducted in the year incurred. The court said any costs associated with the friendly merger provided a "future benefit" to the company and must be capitalized—deducted over a period of years.

Since that decision, the IRS has argued aggressively that any cost that provides a future benefit should be capitalized. To date, the IRS has tried to have companies capitalize the costs of advertising, employee training, and some environmental cleanup expenses. These efforts have been rejected by the courts.

"It's significant that the [IRS] didn't apply Indopco. It's a major victory for common sense," says Harry Cohen, a partner with San Francisco accounting firm Stonefield Josephson.

Says Robert Zarzar, a partner with Price Waterhouse in Washington, D.C.: "Taxes are always an issue, but businesses will do and pay whatever it takes to get ready for the year 2000."

Both the American Institute of Certified Public Accountants and the American Bar Association had asked the IRS for direction on how to treat year 2000 costs. The answer amounts to a major holiday gift to all businesses in need of year 2000 repairs.



—Gloria Gibbs Marullo

The author is a CPA and business writer in South Bend, Ind.

PHOTO ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

INVESTING

Charting Stocks To Become A Better Investor

By Randy Myers

Looking for a simple way to become a better stock market investor?

Try charting.

Stock charts show you at a glance how a stock has performed. According to charting aficionados (also known as technical analysts), these snapshots can yield important clues to how a stock will perform in the future.

"Over the years, charting has protected me from a lot of disasters," says Richard McDermott, a veteran stock broker and editor of *Analyzing Bar Charts for Profit*, a book by John Magee. "Charts protect you from big losses and help you further your gains," McDermott says.

Although some fundamentalists dismiss charting as investment voodoo—and, when carried to an extreme, it may be just that—simple charting techniques are proven tools that stand up to the test of logic. A basic stock chart does nothing more than reveal buying and selling patterns that would be hard to discern by reading stock quotes in the daily newspaper; charting shows heavy selling that develops whenever a stock reaches a certain price, for example, or repeated heavy buying at another price.

A simple chart consists of a vertical axis, scaled to represent a stock's price, and a horizontal axis, scaled to represent time. The time axis generally spans many months or even years, broken into segments representing days or weeks.

Traditionally, chartists have plotted their information by hand on graph paper. In each time segment, both the high and the low price of the stock are marked and connected with a vertical line.

Many chartists also include a companion chart—indicating the stock's trading volume—below the one representing the stock's prices.

Why? Because volume is a key indicator of supply and demand. A stock moving higher on heavy volume is much more likely to continue climbing than one that is moving higher on light volume.

"You like to see volume expanding when the stock is going up and contracting when the stock is going down," says Ralph Acampora, head of technical analysis for Prudential Securities in New York City.

Although you can produce charts by hand, you may prefer to buy them from charting-service companies by subscription or to create them in seconds using a personal computer and any of a dozen or so software programs designed for the job. (Two popular and inexpensive programs are Wall Street Analyst, by Omega Research, and Personal Investor, by Window on Wall Street.)

Three Core Patterns

Although dedicated chartists sleuth out esoteric patterns such as "island reversals" and "rising wedges" in their stock charts, novices can focus on three simple things:

- The correlation between a stock's price and volume activity (as shown by the price and trading-volume charts).
- The stock's price trend line (up or down).
- The stock's support and resistance levels (the prices at which a stock typically reverses course).

To create a price trend line for stocks that are moving higher, chartists draw a line that connects the ascending low points of the bars that show daily high and low prices. For stocks that are heading lower, the trend line connects the descending daily price high points.

The more times the stock hits and bounces off the trend line, the greater the significance of any subsequent price move that violates the line.

If a climbing stock's price falls decisively (3 percent or more) below its rising trend line, it means that the stock's advance is likely to be over, particularly if the trend line is broken on heavy volume. Similarly, a declining stock that decisively pierces a descending trend line might be poised to reverse course and start rising in price.

The Outer Limits

Sometimes, stocks move neither up nor down consistently but instead bounce back and forth in what Wall Street calls a trading range. When that happens, it's helpful to identify the stock's support and resistance levels for clues to its future direction.

A support level is a price at which buyers repeatedly appear, preventing the stock from falling lower. A resistance level is the opposite: a price at which sellers repeatedly rear their heads and bail out of the stock, preventing it from moving higher.

If a stock breaks decisively below a support level, it is likely to continue falling until a new level of support is established. That's your cue to sell. If it breaks through a resistance level, it is likely to push on to new highs. This could be a good time to buy.

If you'd like to give charting a try, bear in mind that it is as much art as science. If trading patterns could always be deciphered easily, with no exceptions to the rules, all chartists would be rich. They're not.

Still, technical analysis can be a wonderful tool for even novice chartists. At the very least, it can help you decide whether other investors concur with your fundamental analysis of a company's business prospects.

If you like a company but its stock chart suggests that other investors don't, for example, you may want to postpone buying until the chart looks more favorable. Similarly, you can monitor unfavorable developments through a stock chart to help you make selling decisions.

Start charting, and you may conclude that a picture really is worth a thousand words. NB

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

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LEGISLATION

Not-So-Great Expectations

Though there's plenty for Congress to do, the outlook for legislative action in 1998 is dimmed by election-year politics.

By David Warner

Politics is often described as "the art of the possible." But politics may make congressional action on legislation nearly impossible in the coming year. Thirty-four Senate seats and all 435 House seats are up for election in 1998. And in election years, congressional debate typically becomes highly politicized, with members of both political parties trying to look their best to voters, say many political observers. Often the result is legislative gridlock.

PHOTO: T. MICHAEL KEZA

"I see both parties looking to differentiate themselves" in 1998, says Thomas E. Mann, director of government studies at the Brookings Institution, a public-policy research organization in Washington, D.C. As a result, he says, "I'm looking for fairly modest legislative output."

Mann says the political dynamic that brought together Republicans, moderate Democrats, and the Clinton administration to support the historic five-year balanced-budget agreement in mid-1997 changed by the end of the year and is not likely to reappear in 1998.

"The success of Congress in 1997," Mann says, "was largely the budget agreement, which was wrapped up in the summer. Since that time, both parties' caucuses in Congress have pushed to advance their own ideological interests, making it very hard to build centrist coalitions."

Such coalitions often are needed to move legislation through Congress. With political careers on the line, lawmakers in both parties are unlikely to compromise on many issues during the year ahead.

"While 1998 is an election year, which traditionally means Congress gets less done," says Lonnie Taylor, senior vice president for congressional affairs of the U.S. Chamber of Commerce, "there will be numerous legislative opportunities and challenges for the business community, particularly in the regulatory and tax areas."

Here are some of the key business issues that Taylor and other congressional experts expect legislators to consider during the second session of the 105th Congress, which convenes Jan. 27:

Budget And Taxes

On fiscal issues, debate in Congress is expected to center on what to do with the projected budget surplus.

Lawmakers already are dividing into factions favoring various plans for using the surplus. Because of higher-than-expected tax revenues, some private analysts say, the surplus could materialize during the current fiscal year, which began Oct. 1.

The most recent official estimate—by the Congressional Budget Office (CBO) in September—is that under the five-year balanced-budget agreement enacted in August, a surplus of \$30 billion will be achieved in fiscal 2002. However, CBO estimates have tended to be conservative. For example, the \$124 billion budget deficit projected in January 1997 by the CBO for fiscal 1997 was actually just \$22 billion for the fiscal year, which ended Sept. 30. (See the chart on Page 27.)

Some lawmakers want to use surplus revenue to reduce taxes further, while others would like to use it to pay down the \$5.4 trillion national debt or to reform financially troubled entitlement programs such as Social Security and Medicare. Still others want to increase spending on various programs, and yet another faction is pushing for a combination of tax cuts, spending increases, and debt reduction.

"We've moved out of the deficit-politics regime that has ruled Washington for the better part of 30 years to a new regime of surplus politics," says Stephen Moore, director of fiscal-policy studies for the Cato Institute, a public-policy research organization in Washington. "The question is whether Republicans can claim that money for cutting taxes and retiring debt before liberal Democrats can use it for spending on new projects."

House Speaker Newt Gingrich, R-Ga., and Senate Majority Leader Trent Lott, R-Miss., have signaled their willingness to consider tax cuts beyond the \$100 billion in reductions over five years—1998 through 2002—that are contained in the balanced-budget agreement. Specific tax-cut proposals under discussion include:

- Indexing capital gains for inflation, which in effect would lower taxes on such gains.
- Reforming or eliminating the alternative minimum tax.
- Reducing the federal tax on gasoline.
- Making across-the-board cuts in marginal tax rates.

The Democratic leadership, on the other hand, is looking at spending any budget surplus on strengthening federal education initiatives; increasing assistance to children, including setting national child-care standards; and overhauling the nation's health-care system.

Health-care proposals likely to be advanced include bills to require health-maintenance organizations (HMOs) to

provide minimum levels of coverage for patients and measures that would expand medical-malpractice liability to health-insurance carriers and employers who provide health-care coverage.

President Clinton has said he wants to resurrect his failed 1993-94 effort at health-care reforms with a series of narrowly focused bills. (See Benefits Update, Page 29.)

Restructuring the Internal Revenue Service and revamping the federal tax code also are expected to be key fiscal issues in 1998.

The Senate is expected to take up the IRS restructuring bill that was passed by the House at the end of the 1997 session. The measure would allow taxpayers to recover damages from the IRS if a federal court found that the agency had recklessly and intentionally violated the law or had engaged in unauthorized, improper, or erroneous tax-collection actions.

Debate over rewriting the federal tax code is expected to intensify in 1998, too. House Majority Leader Richard K. Armey, R-Texas, who advocates a single-rate flat tax, has been conducting a nationwide tax-reform tour during the congressional break to assess public support for the plan. Competing proposals are a national sales tax and a plan that would eliminate taxes on savings and investment.

Democrats already have jumped on the tax-reform bandwagon. Erik Smith, a spokesman for House Minority Leader Richard A. Gephardt, D-Mo., says there's a consensus among Democrats that the tax code should be changed. But he adds that Democrats want it changed "in a way that doesn't stick it to working families."

Regulation

Efforts to reform the federal regulatory process and to scale back existing rules are likely to move slowly in 1998, as they did in 1997. Republicans still remember the pounding they took in the 1996 elections over their efforts—portrayed by environmentalists and organized labor as "extreme"—to reform environmental and workplace regulations.

Still, a host of measures are due or past due for reauthorization, including the Clean Water Act, the hazardous-waste cleanup law known as Superfund, and the Endangered Species Act. All were subjects of hearings and negotiations in the past session of Congress, but little progress was made on overhauling the statutes.

Two other environmental issues important to business could loom large in 1998: global climate change and air quality.

Congress may take action against any United Nations agreement signed by the Clinton administration that would require drastic U.S. cuts in fossil-fuel use. Burning of fossil fuels has been linked by some scientists to greenhouse gases, which are thought to cause global climate changes.

Many lawmakers also are likely to fight efforts by the Environmental Protection Agency to implement regulations concerning ozone—a component of smog—and fine particulate matter, or microscopic soot.

Budget Deficit Projections For Fiscal 1997

Date Of Projection	(In Billions)
August '96	$169
January '97	124
March '97	112
May '97	67
September '97	34
Actual Deficit, November '97	22

SOURCES: CONGRESSIONAL BUDGET OFFICE (PROJECTIONS); U.S. DEPARTMENT OF THE TREASURY (ACTUAL DEFICIT)

Both a climate-change agreement and the EPA's clean-air rule likely would require businesses to cut their energy use significantly and would lead to costly changes in business processes.

Other bills of particular interest to business that could see action during the coming session are the Mandates Information Act and a regulatory-reform measure sponsored by Sens. Fred Thompson, R-Tenn., and Carl Levin, D-Mich.

The latter bill includes provisions that would require federal agencies to weigh the costs and the benefits of proposed rules that would cost the economy $100 million or more or that the White House Office of Management and Budget determines would have a "significant impact" on the economy. Agencies also would have to assess the risks of the activity or process that is being regulated relative to other everyday risks. There is no companion House bill.

The mandates measure would apply the Unfunded Mandates Reform Act of 1995 to the private sector. It would allow lawmakers to block consideration of any proposed federal mandate that exceeds $100 million in annual costs to the private sector. Currently, only mandates that exceed a $50 million cost to state and local governments can be stopped.

The Mandates Information Act would require the CBO to estimate the impact of private-sector mandates on consumer prices, workers' wages and employment opportunities, and small-business hiring, expansion, and profitability.

While most Democrats again would likely portray regulatory-reform efforts in 1998 as attacks on the federal agencies that protect workers and the environment, regulation expert Wayne Crews Jr. suggests that proponents of reform focus on making Congress accountable for federal rules.

Crews, a fellow in regulatory studies at the Competitive Enterprise Institute, a public-policy research organization in Washington, says: "If you can make Congress itself the focus of changing rules, I think you stand a better chance [of achieving reforms]. Otherwise, it's just portrayed as beating up on health and safety regulators, which probably would be fatal in an election year."

Labor And Employment

Another top priority for business is compensatory-time legislation, which passed the House early in 1997 but never came up for a vote in the Senate. The measure would allow employers to offer hourly workers time off at the rate of 1.5 hours for each hour worked over 40 in a week. Senate proponents of the measure were negotiating with the Clinton administration just before the 1997 session ended.

Also expected to be considered in 1998 is a measure to allow employers and workers to establish cooperative labor-management teams to discuss various workplace issues. The so-called TEAM Act—Teamwork for Employees and Management Act—was approved by Congress in 1996 but vetoed by Clinton.

The problem for business on both issues, which have proved popular with the public, is that the AFL-CIO has made their defeat a top priority. Lawmakers who support the comp-time and TEAM Act bills likely would face the wrath—and the considerable political clout—of organized labor in the upcoming elections. The AFL-CIO spent $35 million in the 1996 elections in an effort to oust pro-business legislators.

Pro-labor lawmakers, led by Sen. Edward M. Kennedy, D-Mass., are expected to push for another increase in the federal minimum wage. Kennedy has sug-

gested raising the rate from its current \$5.15 an hour to \$7.25 by 2002. Kennedy proposed the previous increase—which raised the wage floor from \$4.25 to \$5.15 in two steps—in 1996, the last election year.

Other labor-related issues that could see action in the coming Congress include overhaul of the Occupational Safety and Health Act and efforts to quash an OSHA ergonomics standard that would require firms to modify their workplaces and/or work processes.

But Daniel Yeager, vice president and general counsel for the Labor Policy Association, a business-backed public-policy organization in Washington, doesn't envision substantive results in the labor area. Politics will be driving the labor issues, he says, "and the way it seems to be driving them is toward gridlock."

Sorting out tax issues *could become easier if Congress restructures the Internal Revenue Service to give taxpayers more leverage in disputes.*

Trade

Although granting the president broad fast-track trade-negotiating authority is a top priority from business's perspective, the issue may not see much action in 1998.

In recent remarks, Senate Majority Leader Lott said he is not inclined in the coming session to consider fast-track, under which trade agreements are subject only to up-or-down votes—not amendments—in Congress. In addition, Clinton is less likely in an election year to push Democrats to vote for the negotiating authority for fear of alienating them from organized labor, which vigorously opposes fast-track.

However, Greg Mastel, vice president and senior international economist with the Economic Strategy Institute, a public-policy research organization in Washington, says that a narrow fast-track bill might win congressional approval in 1998.

Such a measure could include, for example, language for negotiating Chile's inclusion in the North American Free Trade Agreement; reducing tariffs on U.S. goods to Pacific Rim countries; and resolving issues related to the World Trade Organization, such as an agreement to cut tariffs on information technology.

But even a narrow trade bill could succumb to election-year hyperbole, as lawmakers divide into free-trade and protectionist camps to curry favor with their political supporters.

The annual fight over extension of most-favored-nation (MFN) trade status for China, another leading business concern, also could prove difficult in 1998. MFN, which confers no special trade privileges and is routinely granted to most of the nations with which the United States trades, expires for China on July 1, 1998.

Some lawmakers have sought to deny or restrict MFN for China because of the country's human-rights abuses and other practices, such as selling weapons to Iraq. Business has cited the billions of dollars worth of U.S.-China trade each year and U.S. firms' influence in the country as reasons to renew MFN.

Other Issues

Among other business issues the coming Congress is expected to tackle in 1998 are reauthorization of the nation's transportation law, reform of the product-liability system, and deregulation of the electric-utility industry.

A priority for lawmakers when they return in late January will be reauthorization of the Intermodal Surface Transportation Efficiency Act (ISTEA). The law, which provides funds to the states for building and repairing roads and bridges and for financing mass-transit projects, expired Sept. 30.

Congress passed a temporary extension of the law, but that runs out in March, and without a new law or another extension, thousands of transportation projects could come to a halt. The real battle will be over how much money to allocate to a new ISTEA measure and how to divide the funding among the states.

Prospects for product-liability reform may be better in 1998 than they were in 1996. That year, a broad product-liability measure was vetoed by Clinton after intense pressure from trial lawyers, who were major contributors to the president's re-election campaign.

In 1997, lawmakers made progress on crafting a bill that Clinton could sign into law. Senate proponents of reform negotiated with the White House and appeared close to a deal on a measure just before the congressional session ended. A major provision of the bill would cap punitive damages that small firms would be required to pay for defective products.

While many Democrats in this election year likely will continue to oppose product-liability reform for political reasons, if proponents of reform can reach an agreement with Clinton, a bill should become law.

Although federal politics may not play much of a role in the question of deregulating the electric-utility industry, there likely will be no final congressional action on this in 1998 because of several unresolved issues.

One issue centers on reimbursement of utilities for certain costs they incurred under federal regulations; another has to do with possible objections from state and local governments over matters such as taxing and zoning for utilities in their jurisdictions.

Through deregulation, lawmakers want to encourage more competition among energy providers and to reduce costs by eliminating some cumbersome federal rules. NB

Benefits Update

Health-care proposals and costs; new pension-plan forms; workers' comp premium adjustments.

By Stephen Blakely

HEALTH COVERAGE

'Bill Of Rights' For Patients Could Raise Firms' Costs

The Clinton administration's proposal to create new federal laws to guarantee a set of basic health-care rights and consumer protections is meeting strong resistance from the business community and Republican congressional leaders.

President Clinton in mid-November endorsed a proposed health-care "bill of rights" recommended by a 34-member advisory commission he had appointed nine months earlier. The president called on Congress to convert the rights proposal to federal law in 1998.

Republican leaders have attacked the plan as an attempt to nationalize the U.S. health-care system on a piecemeal basis. And they have vowed to block the administration's anticipated legislative proposals. The issue is almost certain to become a major political battle in the 1998 congressional elections.

A small-business representative on the commission, S. Diane Graham, was the only member to oppose the final recommendations. Graham, chairman and CEO of STRATCO, Inc., an engineering firm in Leawood, Kan., said the proposed bill of rights would amount to "enforceable entitlements" that would increase health-care costs. Higher costs, in turn, would hamper small businesses' ability to offer health insurance to their workers, she said. "The burden of raising premium rates falls hardest on the small employer."

Although the commission's conclusions are purely advisory, Clinton directed federal agencies to implement as many of the proposals as possible within their regulatory authority, and he said he will ask Congress to pass legislation to implement the rest. He also urged the business and health-care communities to adopt the consumer protections voluntarily.

Clinton created the panel after Congress in 1994 rejected his attempt at a sweeping overhaul of the nation's health-care system.

The panel is co-chaired by Labor Secretary Alexis M. Herman and Health and Human Services Secretary Donna E. Shalala. Its members represent consumers, health providers, labor unions, and a few businesses.

The preamble to the "Consumer Bill of Rights and Responsibilities" declares that high-quality health care should be "available to all Americans, regardless of ability to pay." These are the commission's seven proposals in brief:

Information disclosure: Consumers should have "accurate, easily understood information and assistance" about their health care. This would include information about their doctors' experience in performing specific procedures, whether the doctors have been disciplined, and whether there are financial incentives from a health plan to limit procedures.

Choice of providers and plans: "Consumers have the right to a choice of health-care providers that is sufficient to assure access to appropriate high-quality care."

Access to emergency services: Health plans should pay when a patient goes to an emergency room with "acute symptoms of sufficient severity" that any "prudent layperson" would consider an emergency, even if the patient turns out not to be seriously ill or injured.

Participation in treatment decisions: Doctors should be able to tell patients about all treatment options regardless of their cost.

Nondiscrimination: Patients should not be denied medical care "based on race, ethnicity, national origin, religion, sex, age, mental or physical disability, sexual orientation, genetic information, or source of payment."

Confidentiality: With few exceptions, individual medical records should be confidential and disclosed only for treatment or payment of bills. Records might be released if necessary to investigate health-care fraud or to protect the public's health.

Complaints: Patients should be able to appeal to an independent, outside review panel if they think they were improperly treated or denied care.

In addition, the health-care bill of rights includes a section on consumer responsibilities, such as "maximizing healthy habits," being respectful of doctors and health-care workers, and making "a good-faith effort to meet financial obligations."

The recommendation on choice of doctors relates to the fact that many managed-care plans require patients to obtain a referral from a primary-care provider serving as a "gatekeeper" before seeing a specialist. Although it is unclear how this recommendation might be implemented, it would undercut one of the key methods by which managed-care plans control health costs.

The Health Benefits Coalition, a broad-based group of businesses and health-care providers that oppose federal health mandates and anti-managed-care legislation, is working to develop less-costly and less-burdensome alternatives to the commission's proposals.

"We see a locomotive heading down the track, headed over the cliff, and we're busily trying to create a spur line to take it away from disaster," says Neil Trautwein, manager of health policy for the U.S. Chamber of Commerce, a leading member of the coalition. ■

CHART AND PHOTO ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

HEALTH-CARE COSTS

Increases For The Year May Exceed Projections

Health-care costs are rising significantly again, and the trend is expected to continue in 1998.

Jon Gabel, director of the Center for Survey Research in Washington, D.C., part of KPMG Peat Marwick, a New York City-based accounting and consulting firm, estimates that increases for 1997 will prove to be 5 to 7 percent, and he forecasts a similar level of increases for 1998.

John Erb, a principal at William M. Mercer Co., a New York City benefits consulting firm, warns that health premiums may jump as much as 10 percent in 1998 as insurance companies take action to recover past losses.

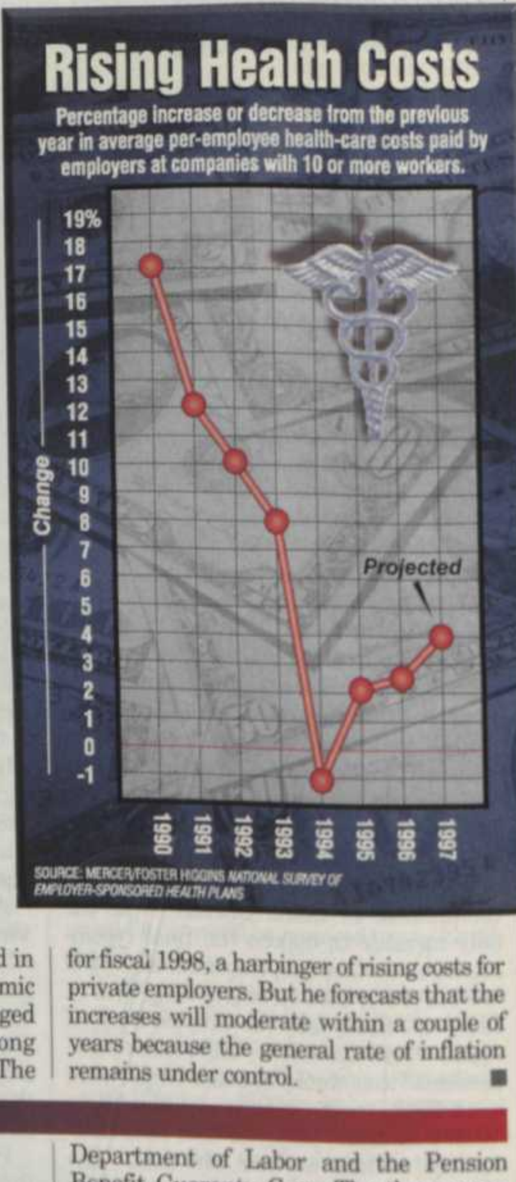
"The vacation employers have had from higher premiums is just about over," Erb says. "In 1998, we will see [health insurers] going for profits."

By comparison, in 1996, health-care costs rose just 2.5 percent, according to a study by Mercer. Businesses with 10 to 500 workers saw their health-insurance premiums drop slightly—by an average of 2 percent—while companies with more than 500 workers experienced an average 3.6 percent increase.

At the start of 1997, when inflation was running slightly over 2 percent, many experts had forecast that employers would see health-care costs rise about 4 percent for the year, or roughly double the inflation rate, but still less than Gabel now projects.

The stable or falling health-premium costs that employers had enjoyed in recent years, he says, were an "economic miracle" caused by the rush to managed care and intense competition among health-maintenance organizations. The currently rising rates, he says, represent a "correction" needed by health insurers to cover their recent losses.

Gabel notes that health-insurance premiums for federal workers are up 8.2 percent for fiscal 1998, a harbinger of rising costs for private employers. But he forecasts that the increases will moderate within a couple of years because the general rate of inflation remains under control. ■



PENSION PLANS

Simpler Reporting Forms Could Be Complicated

Three federal agencies are planning to simplify the annual retirement-plan reporting forms that employers must use, but some small businesses may find that the compliance process will take longer and be more difficult.

The new forms, which would replace the current Form 5500 and one of two other similar forms, most likely would be used starting in mid-1999 for 1998 reports. But companies would have to start changing the way they collect pension-plan data early in 1998 to accommodate the reporting change, pension consultants say.

The retirement-plan forms are filed each year with the Internal Revenue Service, which shares the information with the Department of Labor and the Pension Benefit Guaranty Corp. The three agencies, acting under the Clinton administration's "reinventing government" initiative, jointly issued their long-awaited proposal for new forms in September.

The public-comment period on the proposed new forms closed Nov. 3, and the agencies hope to decide soon on recommended changes to the revised forms.

Under the Employee Retirement Income Security Act, company-sponsored retirement plans must file Form 5500, a comprehensive report about the plan's financial condition, operation, and compliance with government requirements.

Plans with 100 or more participants use Form 5500; those with fewer than 100 participants use Form 5500-C/R; and one-

person plans use Form 5500-EZ.

The new format for reporting would use a standardized, single-page form resembling a tax return, supplemented by 13 financial "schedules" to report various kinds of information. Five of the types of information requested would be new.

Small companies would no longer use Form 5500-C/R, which would be eliminated; they would use the standardized regular form. Form 5500-EZ would not be changed.

The agencies also are planning to institute new electronic-filing and computer-processing techniques.

Accounting firm Coopers and Lybrand, headquartered in New York City, notes that the revised package represents "a major change in the annual reporting requirement" for employer-sponsored retirement plans. The firm also recommends that companies "carefully review this proposal" because they might have to collect additional information to comply with the new forms.

The proposal is in the Sept. 3 *Federal Register*, which can be found at many local libraries.

The proposal is also available electronically on the World Wide Web site of the Labor Department's Pension and Welfare Benefits Administration at *www.dol.gov/dol/pwba*, but Internet users need a browser with a graphical viewing program to call up the forms in the paginated format in which they are printed. ■

WORKERS' COMPENSATION

Some Premium Adjusters Promise Too Much

Businesses that hire consultants to help lower their workers' compensation premiums may be inviting unwarranted expenses or legal trouble if they're not careful whom they hire.

So-called premium adjusters are independent consultants who are hired to review a company's job classifications, looking for inaccurate worker ratings by the insurer.

Workers' comp premiums vary according to each job's assigned level of risk. Thus, if a company's workers are placed in a risk category that's too high for the tasks performed, the company's premium for workers' comp coverage can be undeservedly high. (See "Costly Numbers In Workers' Comp," September 1997.)

If a detailed review of a company's job classifications discloses risk ratings that appear too high, the premium adjuster negotiates with the workers' comp insurer for premium refunds. The adjuster may charge a percentage of any premium refunds obtained or may work on an hourly basis.

According to one premium adjuster, however, some consultants charge large fees at the outset while promising substantial premium refunds, or they encourage companies to inaccurately describe the nature or understate the risks of their jobs to achieve a premium reduction.

Deliberate falsification of the risk levels of jobs amounts to premium fraud, a serious insurance crime, says Edward J. Priz, president of Advanced Insurance Management in Riverside, Ill., and author of *CompControl: The Secrets of Reducing Workers' Compensation Costs* (Oasis Press, $19.95).

Priz offers these guidelines for businesses that use an outside firm to review their workers' comp premiums:

Never misrepresent the nature of your business or the duties of your employees. "No reputable consultant will be involved in such schemes," Priz says. Any consultant who suggests such action should be reported to state insurance officials, he adds.

Don't pay a big fee upfront based on a consultant's promise of premium refunds. The savings may never materialize. Most premium adjusters work on a contingent-fee basis, which means you pay only if and when a premium refund is awarded.

Ask for the consultant's findings in writing. Demand an explanation of the exact nature of the premium mistake and the corrective course of action. If you have any doubts, ask your insurance agent to review the consultant's report.

Obtain references and check them before hiring a premium adjuster.

The Coalition Against Insurance Fraud, an industry-supported group in Washington, D.C., confirms that there have been some—though apparently few—recent reports of adjuster fraud. Coalition spokesman Mike Diegle says his organization has been pushing for tougher state laws that would make it easier to prosecute third parties that "aid and abet" insurance fraud. NB

TAXATION

Fighting For Limits On An IRS Plan

A proposal to tax earnings of many limited partners and members of limited-liability companies is encountering organized opposition.

By Joan Pryde

Small-business advocates are preparing for a renewed assault on proposed Internal Revenue Service rules that would increase taxes for many members of limited-liability companies and partners in limited partnerships.

The rules, proposed in January 1997 but not yet finalized, would require millions of those business owners to pay the 15.3 percent federal employment tax on their earnings. They currently pay zero because under a vaguely worded federal law, they are presumed to be passive investors receiving unearned income, not wages, from their partnerships or LLCs.

But the IRS maintains that because of their level of activity in their businesses, their income from those businesses constitutes wages. The proposed rules would clarify the law's intent by creating a stringent three-part test to determine exactly who must pay the employment tax and who is exempt. However, there would be no exemptions for professionals in seven service categories—health, law, engineering, architecture, accounting, actuarial science, and consulting. They would pay, period.

In May, to block implementation of the rules, the U.S. Chamber of Commerce and 22 other groups formed the Coalition to Stop New Small Business Payroll Taxes. They won a temporary reprieve in the tax-reform law enacted Aug. 5, which included a moratorium that bars the IRS from finalizing the rules until after June 30, 1998.

In the interim, coalition members are developing an alternative proposal for determining which LLC members and partners must pay the self-employment tax. The plan will be presented to lawmakers on the tax-writing House Ways and Means Committee in hopes that Congress will adopt the business-backed alternative before the moratorium on IRS action lapses.

The IRS proposal "is an unjustifiable tax increase on small businesses" and "an uncommonly bad initiative," says Dan Mastromarco, spokesman for the coalition.

PHOTO: ©CARL DAVAZ

Retirement-center owner *Don Desler says an IRS proposal to levy the self-employment tax on many members of limited-liability companies would discourage investment.*

Mastromarco is an attorney with the Argus Group in Washington, D.C., a law and government-relations firm.

"We don't want Congress or the IRS to act without having the business community's input on what is the correct approach," says Mastromarco.

How Confusion Developed

The limited-liability company is a relatively new type of business entity whose popularity began to increase early in the 1990s. An LLC is a cross between a corporation and a partnership. Like the officers of a corporation, LLC members are shielded from personal liability. Like members of partnerships, their profits and losses show up on their individual tax returns.

The tax code requires the self-employed to pay the entire 15.3 percent payroll tax—12.4 percent for Social Security and 2.9 percent for Medicare. (In comparison, employees pay half the 15.3 percent through payroll deductions, with their employers paying the other half.) The amount of wages subject to the Social Security tax in 1998 is $68,400, up from $65,400 in 1997. Wages subject to the Social Security tax are adjusted each year based on inflation. All wages, however, are subject to the 2.9 percent Medicare tax.

A law passed in 1977, before LLCs became a popular form of business entity, stated that general partners are subject to the self-employment tax and limited partners are exempt. The rationale for the difference is that limited partners typically are passive investors, so their income from the partnership should be considered investment income, not compensation for services.

The law did not refer to LLCs' members, however, thus providing no guidance on how they should be treated for employment-tax purposes. Nor did the law define how passive a partner would have to be to merit the "limited partner" designation and avoid the self-employment tax. Attorneys say the lack of guidance left them guessing about tax treatment, and many concluded that their clients who were LLC members were exempt from the tax. Many also didn't question the exempt status of their clients who were limited partners.

The Three-Part Test

Under the IRS's proposed three-part test for determining LLC members' and limited partners' self-employment tax liability, the tax would apply under any of the following circumstances:

- The person was liable for debts or claims against the partnership.
- The person had the authority to enter

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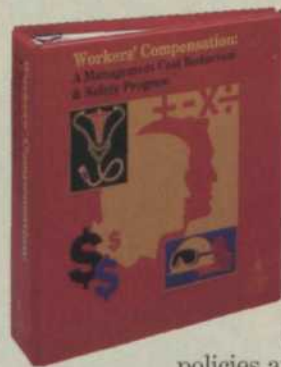

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into contracts on behalf of the partnership.

■ The person participated in the partnership's trade or business for more than 500 hours annually.

Opponents of the rules say the "500-hour" test would force a large number of LLC members and limited partners who do not pay the tax now to begin doing so.

The IRS erred, opponents say, in basing one of the criteria on how active an LLC member or limited partner is. They maintain that the employment-tax status of an LLC member or limited partner should be judged by how much control the individual has over the business, not by how many hours the person devotes to the business.

The 500-hour test would primarily hurt "those business owners who do not earn their living by passive investment but by their own sweat equity," says coalition spokesman Mastromarco.

The U.S. Small Business Administration puts the number of LLC members and limited partners who could be affected at more than 10 million.

PHOTO: CHUCK KNEYSE—BLACK STAR

As an attorney, *Al Martin is in one of seven service professions that would be hit particularly hard by the IRS's proposed regulations.*

Kansas City, Mo., attorney Al Martin says his profession would be hit hard by the new regulations, as would the six other service categories in which professionals would pay the tax without question. "This is a huge group of people," he says. "It's literally hundreds of thousands of people presumed to be active in a business whether they are or aren't."

Martin's firm, Shook, Hardy & Bacon, is set up as a limited-liability partnership, the term used to designate an LLC in some states.

Return On Capital Investments

Critics see another serious problem with the IRS proposal: Those liable for the self-employment tax would have to pay it on all their distributions from the LLC or limited partnership—including anything that could be attributed to a return on capital investments. Although current law is unclear on the issue, attorneys say they have always assumed that return on capital should be exempt.

Don Desler, who owns the Good Neighbor Care Center in Springfield, Ore., is among those concerned about that aspect of the rules. He says he can understand the IRS's desire to impose the self-employment tax on his compensation, but he maintains that imposing that tax on his return on investment is going too far.

Desler's company, an LLC, has developed a model for community-based retirement care that he wants to replicate by setting up additional LLCs in other states. But he worries that the IRS proposal would scare away investors and hamper his plans for expanding his business. "Any time you raise a red flag about tax treatment, the easy thing to do is to [walk away]," he says.

Critics of the regulations say the solution is to require that limited partners and LLC members be subject to the self-employment tax only on distributions that are identified as "reasonable compensation" for services rendered to the partnership, with distributions related to capital expenditures exempt from the levy. Mastromarco says the coalition is working to develop a proposal based on that standard.

The 500-hour rule could be turned into a safe harbor, says Mastromarco. A person who worked 500 hours or less would be exempt from the self-employment tax. A person who worked more hours would be subject to another type of test to determine if he or she exerted enough control over the business to trigger application of the self-employment tax on "reasonable compensation."

A Measure Of Certainty?

The business community's complaints notwithstanding, some tax lawyers view the proposed rules positively. For example, Steve Frost, an attorney with the Chapman & Cutler law firm in Chicago, contests the SBA's estimate that 10 million people would be affected; he says most LLC members and limited partners would pass the three-part test and be exempt from the self-employment tax.

Frost says the regulations would be a boon to the majority of LLC members and limited partners who have long operated without guidance on this issue. "This would give all sorts of certainty" to such taxpayers, he says. As long as they worked no more than 500 hours for a limited partnership or LLC, he says, they would not have to worry about paying the self-employment tax.

But the coalition says that even for those who subscribe to Frost's views, there is another good reason to make sure the proposed IRS rules are never finalized. Coalition members fear that an IRS victory eventually would revive a failed 1993 Clinton administration attempt to impose the self-employment tax on dividends paid to S-corporation members. Those dividends currently are exempt from the tax.

"We believe there is more to it when you lift up this rock," Mastromarco says. "We believe this is one step along the continuum" of broadening the applicability of the tax.

Although the tax law enacted in August that included the moratorium on the IRS rules said nothing about the content of the regulations, opponents say that if the IRS doesn't modify the rules, Congress is likely to step in and rewrite them.

Congress knows that "economically this [proposal] doesn't make a lot of sense," says David Keating, president of the National Taxpayers Union, another member of the coalition fighting the regulations. "My hope is that the IRS will see there is sufficient congressional displeasure" and withdraw the rules.

Regardless, Mastromarco says the coalition will be ready to offer a better alternative. "Sitting back and waiting is not going to get the right result," he says. "The business community has to be very proactive and insistent upon getting the right results." NB

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Nation's Business
The Small Business Adviser

Small Business Technology

Off-the-shelf programs can help with your firm's money management, office tasks, and creativity.

By Tim McCollum and Albert G. Holzinger

Software Beyond The Basics

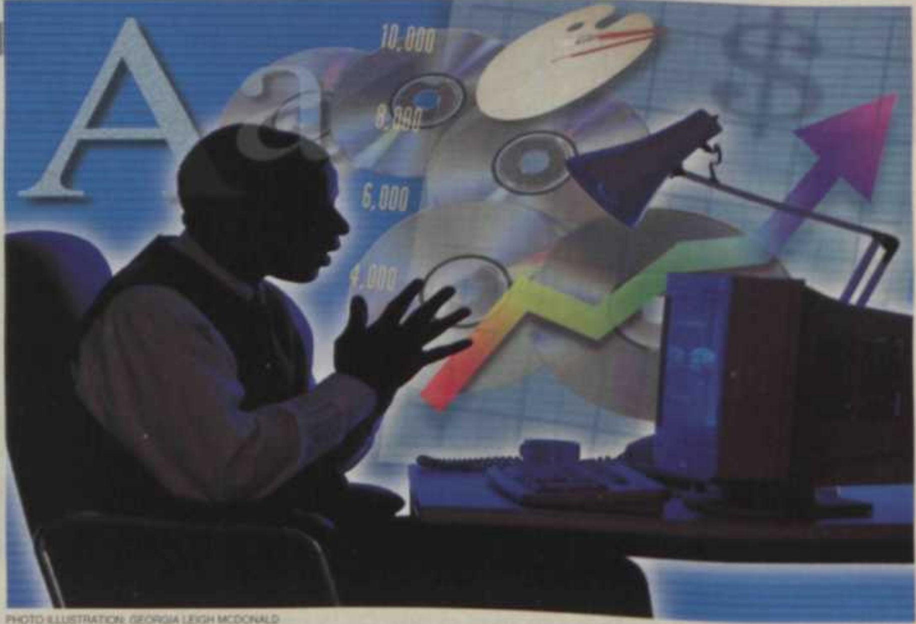


PHOTO ILLUSTRATION: GEORGIA LEIGH MCDONALD

Computer software can be a boon to the productivity of entrepreneurs working at home or in a small office. But small firms might miss out on some of the greatest benefits if they use only the software that came with their business PCs. Typically, this software consists of an operating system such as Microsoft Corp.'s Windows 95, a suite of general business programs such as a word processor and a spreadsheet, tools for accessing the Internet, and a few games.

Maximizing productivity will almost certainly require additional software geared toward specific business needs. Some programs might enhance financial, graphics, and other business capabilities, while other software might be needed for general office chores such as filing.

Most of the programs are relatively inexpensive and are easy to install and operate. Following is a small sampling:

Financial Aids

Financial-management programs can save a lot of time and money for entrepreneurs. They enable users to record and track transactions with customers and suppliers, generate invoices and reports, and analyze cash flow and other financial data. Here are some programs worth considering:

Quicken Home & Business 98
$89.95, Intuit Inc.
1-800-446-8848

Intuit, of Mountain View, Calif., designed Quicken as a personal-finance manager. But the largest category of registered Quicken customers is small-business owners.

In response to that interest, Intuit has tailored a version of Quicken to meet entrepreneurs' needs. Called Quicken Home & Business 98, the program combines Quicken's traditional personal-finance-management features with additional business-management capabilities: tracking of payables and receivables, invoicing, and detailed financial reporting.

The software is easy to master. It features a sophisticated system to help entrepreneurs locate and use specific functions of the program, and it contains links to Intuit's World Wide Web site, which is an excellent source of investment and other financial information.

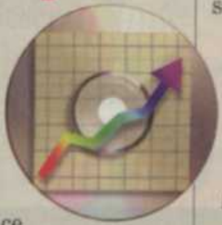
Time & Profit
$179
BytePro Corp.
1-800-713-5322

Time & Profit is an excellent tool for entrepreneurs who bill clients by the hour.

With an on-screen calendar, users enter their work schedules for each client, then click a button to process their hours in the program's accounting system. Time & Profit also features a "stopwatch" that times phone calls with clients, calculates the amount the client should be billed, and enters that amount into the accounting system.

The software can analyze the profitability of various projects or of serving selected clients. It also can report on the relative costs of working with different suppliers.

Productivity Builders



Software aimed at boosting productivity is a natural for home- and small-office users, who generally don't have support personnel on hand. These programs can speed clerical tasks, organize information, and more:

Encarta Reference Suite 98, $109
Microsoft Corp.
1-800-426-9400

Entrepreneurs (or their family members) who need to incorporate almost any fact into a project almost surely will be able to find it somewhere in the Encarta Reference Suite. The suite consists of three reference works on CD-ROM, each of which has received wide acclaim in its own right.

The Encarta 98 Encyclopedia Deluxe Edition contains more than 30,000 articles and more than 16,000 related photos, illustrations, sound clips, videos, maps, charts, and links to the Internet. In addition, it contains 900 interesting "sidebars," such as famous speeches and documents and views of selected periods in history conveyed via contemporary newspaper and magazine clippings. The encyclopedia's content can be updated monthly via modem.

Virtual Globe is a world atlas featuring remarkably detailed maps and articles related to geography. Bookshelf 98 consists of 10 reference books, including a dictionary, thesaurus, world almanac, and ZIP-code directory.

PaperMaster Live
$119
DocuMagix Inc.
1-800-362-8624

PaperMaster Live helps entrepreneurs organize the documents, electronic mail, faxes, and images they scan or download via modem into their computers. With this software, users are able to file items for later retrieval in folders they create and name within a central electronic file cabinet.

This version of PaperMaster Live has been improved to help people work more easily with material they obtain from the Internet. For example, users can save World Wide Web pages in a form that preserves graphics, sound, and links to other pages.

PaperMaster Live's tools allow users to highlight text, attach notes to documents, and insert logos and signatures. Users can merge and send documents via e-mail without exiting from the program.

ProVenture Mail Tools
$49.95
MySoftware Co.
1-800-607-4848

This software makes quick work of mailings to customers, prospects, suppliers, and others. It imports and converts names and addresses from common word-processing, contact-management, spreadsheet, database, and other programs into mailing-list format. Mailing to part or all of a list is merely a matter of choosing an envelope, label, or postcard design and selecting a typeface, printing color, and logo to appear on it.

Mail Tools automatically filters out duplicate items on mailing lists; it corrects spelling, address formats, and other data; and it adds ZIP+4 codes.

Moreover, Mail Tools can apply bar codes to items and sort them to enable users to take advantage of U.S. Postal Service discounts on bulk mailings.

SOHOMaster, $249.95
New Perspective Software Inc.
1-888-522-8334

SOHOMaster can function as an office's central nerve center by organizing and automating operational functions. The database program, which is especially useful for retail and mail-order businesses, can handle contact management, invoicing, purchasing, inventory management, shipping, and more.

Also, the software can be used to fax or e-mail documents to user-selected clients.

SOHOMaster's data-entry capabilities work in conjunction with hardware such as credit-card readers and bar-code scanners.

Graphics Tools

The latest graphics programs are designed to help entrepreneurs create visually interesting brochures, business cards, fliers, stationery, and more. They are also useful for family projects such as making greeting cards and completing school assignments.

Picture It!
$54.95
Microsoft Corp.
1-800-426-9400

This software allows entrepreneurs to incorporate photos into marketing and other materials quickly and easily.

Users scan printed images into their computer or download electronic images from a digital camera. Then they can use tools contained in the program to touch up scratches and dust, create special effects, and add text captions, among other functions. Users can visually preview how a particular special effect will look before they implement it for their photo.

Picture It! also enables users to access via modem the Kodak Picture Network, an online image-repository service that costs $4.95 a month, and to link to PhotoNet, a World Wide Web site where users can post and share with others photos that were developed by their local photo shops.

The Print Shop Publishing Suite
$69.95
Broderbund Software Inc.
1-800-548-1798

Entrepreneurs don't have to be artists to make the most of The Print Shop Publishing Suite, which consolidates the capabilities of Broderbund's flagship The Print Shop Premier Edition desktop-publishing software and The Print Shop PressWriter document-publishing program.

This easy-to-use software provides an array of tools for creating graphical materials such as calendars, greeting cards, invitations, marketing fliers, and stationery.

The program makes it equally easy to create visually attractive documents such as booklets, brochures, and newsletters. Users can enter text directly or import it from a word processor, and the software will flow text automatically based on the style and page layout the user chooses. NB

SMALL BUSINESS TECHNOLOGY

Printers Expand Creative Horizons

With increased capabilities at lower prices, the devices have a whole new range of uses for entrepreneurs. Here's how to choose the right printer for your needs.

By Tim McCollum

PHOTO: ©BILL ROSS

A color laser printer *enables Bob Perkins to create labels for his food products and change La Fonda Restaurant's menu whenever he likes, using inks that hold up well to spills.*

La Fonda Restaurant specializes in spicy Southwestern and Mexican dishes served in a festive atmosphere. But food isn't the only thing created there.

While the cooks at the Artesia, N.M., restaurant rustle up fajitas, chiles rellenos, and the like, the CEO and manager, Bob Perkins, cooks up menus, wall decorations, and other displays on the company's color laser printer.

Perkins bought the printer, a Xerox XPrint 4915, two years ago. At the time, the company was paying a printing company to create colorful menus. However, the high cost of commercial color printing deterred Perkins from changing food offerings and prices as often as he would have liked.

To reduce printing costs, he bought an inexpensive inkjet printer to produce menu supplements, but the inks ran when liquids spilled on the menus. The color laser printer solved his problems. It enables Perkins to change menus whenever he feels it's advantageous, and the laser ink holds up well to spills and stains.

Once, business people used printers almost exclusively to produce letters, spreadsheets, and other black-and-white text documents. Now, resourceful entrepreneurs such as Perkins use their printers for much more. It's not that these business people suddenly have become more imaginative about using printers, it's that printers have become more capable.

"In recent years there's been a steady march toward high print quality," says Ken Weilerstein, an analyst with Datapro Information Services Group, a market-research firm in Delran, N.J. "Plus, graphical capabilities that would have required companies to go to a print shop before have been subsumed into printing, bringing desktop publishing into the mainstream."

Moreover, as with personal computers and many other types of office equipment, the prices of all types of printers have declined even as their capabilities have increased.

That doesn't mean, however, that all printers are low-cost devices. Perkins paid $6,300 for his color laser, but he believes the printer's output quality and versatility justify the investment.

For example, Perkins uses the color laser not only to print menus but also to produce colorful promotional materials, welcome banners and signs, and customized menus for holidays, special events, and groups. "It gives you an original touch that makes people feel special," says Perkins. "It's fresh, and it's become kind of fun."

Moreover, the printer supports the restaurant's thriving ancillary business of selling jars of jalapeños and salsa to area grocery stores. Perkins uses his PC and printer to create different versions of product labels, which he says are comparable in quality to professionally printed labels. By test marketing different labels, Perkins can see which ones work best before he commits to commercial printing of large quantities.

The type of printer a small-business person should buy and the amount that should be spent depend on the firm's needs, says Paula Bursley, a printer analyst with Dataquest, a market-research firm in San Jose, Calif.

"If I were a small-business owner, I'd look at what I needed to do," Bursley says. "If text printing was what I principally needed, I'd look at a low-cost monochrome laser. If I needed basic color, I'd look at one of the better inkjets."

Frequently the "right" choice, she adds, is a combination of printers such as a monochrome laser network printer for documents and a color inkjet for graphics.

Many firms will be tempted to base their decision primarily on purchase price, but Datapro's Weilerstein cautions that it's the total cost of buying and maintaining a printer that counts.

For example, although inkjet printers cost less than lasers, they are more expensive to operate because the ink cartridges, which cost $20 to $30 each, must be replaced frequently. In contrast, the black

ADVERTISEMENT

GOLFING NEWS

by Mike Hensen

Ex-Navy engineer puts armor-piercing material on a driver. Outguns steel and titanium on distance.

PGA professionals outhit their titanium drivers by 25 and 50 yards

YALESVILLE, CT – And you thought steel and titanium were tough. Well, steel and titanium can't penetrate an armor-plated tank or sink a warship. To pierce their defenses the military had to make something so powerful it had to keep it secret… so powerful that once it was declassified, some innovative company would surely apply it to the face of a golf club to add distance.

One has and it doesn't bode well for golf's current state-of-the-art metal, titanium. A well-known professional outhit his own titanium driver with the new club by 25 yards. Another Tour professional outhit his titanium driver by almost 50 yards!

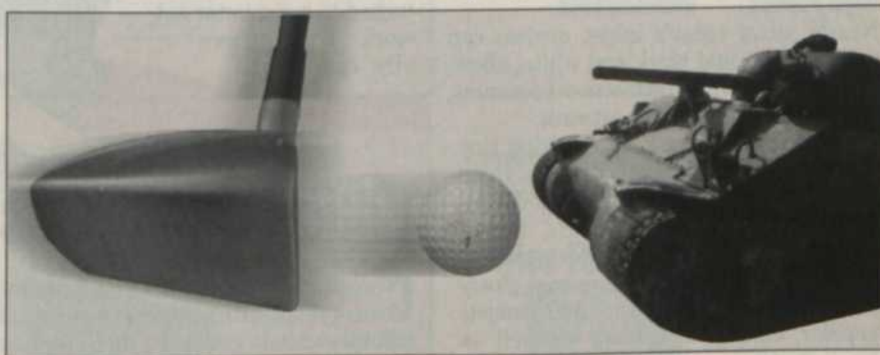
The new driver is the creation of a former Naval Ordnance engineer who used to apply the material to the tips of torpedoes, and a small golf company in Connecticut. Together, they have adapted it to the hitting surface of a steel driver. They say

> "The harder it's hit, the farther it goes."

their adaptation is proprietary and a patent has been applied for.

All the company will say is that the new metal is a sort of ceramic titanium, ceramic for hardness and titanium for strength and lightness. The material – called CT-20 – is twice as hard as steel and 70% harder than titanium. It whacks a ball with such force that at clubhead speeds of 120 MPH – the level of longball champs – the new club split the cover on some balls.

CT-20 also increases a golfer's accuracy by holding the ball on the face of the club four times longer than steel and titanium. This makes off-center shots far less likely to hook or slice, and allows a good golfer to draw and fade the ball with more control. I watched a top Tour professional test the club at a PGA Tournament. Here's what he told me.



Once-secret CT-20 is used on shells to penetrate tanks and warships, and on spacecraft to withstand heat on re-entry. It is twice as hard as steel, 70% harder than titanium.

"I'm hitting the ball 30 yards past my driver and controlling it like a five-iron. You see all my competitors smiling at me? That's not admiration. It's worry."

The company's Research Director explained the club this way…

"It's basic physics. The harder you hit a ball, the farther it goes, and Condor® Armor-Pierce (the club's name) clobbers a ball like a battering ram. It not only launches it farther down range than any thing else on the market, its CT-20 face reduces a ball's normal spin rate. A lower spin rate keeps the ball flying longer and at a lower trajectory for a longer roll.

"Condor Armor-Pierce also reduces *abnormal* spins that cause off-center shots to hook and slice. That's why he's outhitting his titanium driver by 30 yards and controlling 300-yards shots like a five-iron. It's a pleasure to watch, isn't it?

"You know who he is? (I said I did.) He loves the club. I wish he weren't tied up with a big company. He would shoot in the 50's with the Condor Armor-Pierce. Imagine that on TV. Titanium drivers would be history before he changed shoes, especially at Condor Armor-Pierce's price."

The once-secret CT-20 is backed up by a stainless steel head the same size as a titanium driver (250 cc's) for maximum forgiveness. To maximize clubhead speed it comes with a 45-inch graphite shaft, or a new big butt Turbo/Tip™ graphite shaft with extra weight in the tip.

You can test the Condor Armor-Pierce for 30 days by calling **1-800-285-3900** any time or day or faxing 1-203-284-1623. Or you can send your name, address and check (or cc number and expiration date) to NGC Golf **(Dept. TC-95)**, 60 Church St., Yalesville, CT 06492. The club cost only $129.00 (a fraction of the cost of titanium clubs) and you can add the 3 and 5-woods for only $109.00 each. Add $20.00 to these prices for the new Turbo/Tip (big butt) shaft. Shipping is only $10.00 no matter how large your order. Specify regular or stiff flex, men's or ladies', when you order. Right-handed only. There's a 30-day money back guarantee, if the clubs are returned undamaged.

Oh, yes. If you swing at 120 MPH, take some extra balls.

toner cartridge used by monochrome lasers can cost up to $100 but typically lasts a long time. Color lasers are more expensive to maintain than monochrome lasers because they have more components, and network printers require the same sort of ongoing maintenance as an office copier.

"The purchase cost of the printer has come down," says Weilerstein. "That shifts the focus to its true cost. In the big picture, you're looking at the cost of installing it and the cost of keeping it supplied, which can be a considerable amount of money."

To help business people choose the type of printer or combination of printers best suited to their needs, here are comparisons of the relative strengths and approximate costs of today's most common printer technologies:

Inkjet Printers

Nearly all of today's inkjet devices can print in color and black and white, allowing users to create attractive brochures, presentations, and other artwork.

These printers work by spraying tiny drops of ink onto a variety of media, ranging from plain paper or greeting-card stock to clear film and T-shirts. Recent technology advances also allow users to print lab-quality photos on heavy, glossy paper. This versatility has made inkjets popular among consumers as well as small- and home-office users.

Although inkjets are today's least expensive printer, with prices starting at less than $200, the ink they use is relatively costly. Thus, printing experts agree, they are not a good choice for high-volume printing.

Monochrome Laser Printers

These devices can capably handle the day-to-day needs of small businesses that primarily print text documents and no color graphics.

The printers operate by using a laser beam that etches an image of a page onto a photoconductor drum. That image is transferred to the paper when it passes over the drum and is bonded to the paper with heat and pressure.

Laser printers are somewhat more expensive than inkjets, with prices starting at about $400. However, laser printers can print better-looking monochrome text than inkjets, and the ink they use, called toner, is relatively inexpensive on a per-page basis. Laser printers also can print more quickly than inkjets because images are transferred to the paper all at once instead of being sprayed on line by line.

Color Laser Printers

These can produce higher-quality color than inkjet devices. But because of their relatively high purchase price—starting at about $3,000—they are used mostly by companies that regularly produce large volumes of graphical materials.

Color laser printers work essentially the same way that monochrome lasers do. However, they use a blend of colored toners—not just black toner—to create color images. They also contain more memory, which is used to store large color images before they are printed. These differences make them more expensive to purchase and maintain than monochrome lasers.

Network Printers

Some monochrome and most color lasers have been designed to handle output transmitted to them by any of several users attached to a computer network. They generally can print documents faster and in greater volume than standard lasers.

Network lasers are ideal for companies that want to have one central printer or that regularly need to print large numbers of documents. Prices start at around $2,000.

Multifunction Devices

As their name implies, these inkjet devices can do more than just print documents. They also can serve as a copier, fax machine, and document or image scanner. This makes them an excellent choice for someone with a small or home office who wants a single, compact device that can meet all basic document-handling needs. Prices generally start at about $400. NB

Which Printer Fits Your Firm?

Choosing the right printer or printers for a small business requires a careful assessment of the firm's needs and budget. These questions and the analysis of answers that follows can help guide you through the process.

1. Do you primarily or exclusively print black-and-white text documents, such as letters, reports, and spreadsheets? ❑ Yes ❑ No

2. Do you use color graphics or photos in your documents? ❑ Yes ❑ No

3. Does your company produce its own marketing materials or newsletters? ❑ Yes ❑ No

4. Is printer speed highly important? ❑ Yes ❑ No

5. Do you print 50 pages or more on an average day? ❑ Yes ❑ No

6. Will you connect your new printer to a computer network for use by multiple employees or departments? ❑ Yes ❑ No

7. Are you willing to spend $1,000 or more for a printer? ❑ Yes ❑ No

8. Are you more concerned about per-page printing costs than about initial purchase price? ❑ Yes ❑ No

- If you answered "yes" to **QUESTION 1**, consider a monochrome laser printer.
- If you answered "yes" to **QUESTION 2**, you need either a color inkjet or laser printer, depending on your printing volume and budget.
- If you answered "yes" to **QUESTION 3**, you need a color laser printer or a high-end color inkjet.
- If you answered "yes" to **QUESTIONS 4** and **5**, your best choice probably is a laser printer. A network laser printer is the right choice for companies that also answered "yes" to **QUESTION 6** or that produce a high volume of copies.
- If you answered "yes" to **QUESTION 7**, you may be interested in a network laser or a color laser.
- If you answered "no" to **QUESTION 7**, you should consider an inkjet or monochrome laser printer.
- If you answered "yes" to **QUESTION 8**, you should consider a monochrome or network laser printer.

WORK FORCE

Declaring War On Union Political Dues

Efforts are under way to keep unions from using members' money on political activities without consent.

By Thomas Love

Deena Ippolito isn't just angry. She's furious. Ippolito, a clerk at Disneyland in Anaheim, Calif., and a member of the United Food and Commercial Workers union (because "I have to be"), is enraged because the union spends part of her membership dues on political activities that she opposes. "They use my dues to campaign against politicians I support and vote for," she says. "I feel they are extorting money from me."

Not surprisingly, Ippolito is an ardent backer of California's Campaign Reform Initiative, which would prohibit unions from using members' dues for political purposes without their written permission.

On the surface, this might appear to be a matter solely between unions and their members. Why should the business community—in California and nationwide—be concerned?

"I think everybody should care," says R. Bruce Josten, executive vice president for government affairs of the U.S. Chamber of Commerce. "The vast majority of the dues money being expended for political purposes is being used to oppose the political beliefs of at least 35 percent to 40 percent of union rank-and-file members who register and vote for Republicans"—candidates who often have pro-business points of view.

But more to the point for entrepreneurs, Josten says, is that most of the political positions taken by labor unions—and financially supported by member dues—are clearly anti-business. "Organized labor opposed the 1997 balanced-budget agreement, the balanced-budget constitutional amendment, regulatory reform, privatization of government services, and increased government contracting-out to the private sector," he says.

"With almost half of union members being government employees, reducing the size, cost, scope, and intrusiveness of the federal government is not in their self-interest. A balanced budget would cost union jobs," Josten adds.

Men Behind The Movement

The California initiative is the brainchild of three Orange County businessmen who formed the California Foundation for Campaign Reform, based in Tustin. They are real-estate broker James Righeimer, engineer Frank Ury, and construction manager Mark Bucher.

The trio first worked together on an earlier California initiative supporting school vouchers. Righeimer says that "the teachers union spent $20 million to cream" that effort, 71 to 29 percent.

The next political activity the three men took on was formation of the Education Alliance, aimed at helping conservatives get elected to local school boards. "Although Orange County is considered conservative, there was not one conservative on any of the 30 school boards here," Righeimer recalls. The effort has been quite successful, Righeimer says. In the alliance's most recent push, four conservatives were elected to four vacant seats on one board in a late-1997 election.

While the three were organizing conservatives to run for school boards, they discovered that although many teachers supported their cause, the teachers union was spending its members' dues money on the opposite side.

Engineer Ury was a member of the Saddleback Unified School Board and was thought to have a very good chance of winning reelection. "The unions spent $70,000 to take him out," according to Righeimer. (The typical candidate for a school board seat spends about $5,000, Bucher says.)

"That was the final straw," Righeimer says. "We are never going to be able to compete against that kind of money."

Although the initiative stemmed directly from experience with the teachers union, it is designed to ban all unions in all industries from using members' dues for political purposes without their permission.

Before the initiative can be placed on the ballot in the June state primary election, the state must certify the validity of 433,000 signatures on petitions calling for the initiative—a number equal to 5 percent of the votes in the last gubernatorial election. Although that process was not complete at press time, Righeimer and his backers were optimistic. "We gathered 750,000 signatures," he notes.

"If we can raise one-third of the money the unions will spend fighting the initiative, we will win," he predicts. "But we do need money to let voters know who we are and what the initiative really says."

Righeimer says that preliminary polling in California indicates the initiative is fa-

PHOTO: ENZO SELVAGGI

Trying to get *California's Campaign Reform Initiative on the June primary ballot, volunteer Christina Nielson collects a signature from Trevor DuBerry, branch manager of an Orange County security company.*

vored by Republicans 10-to-1, by independents 4-to-1, by Democrats 2-to-1—and by union members 3-to-1.

But the road has not been all downhill.

"Make no mistake about it, the unions engaged in an extensive campaign to block this initiative from ever making it onto the ballot," says Ron Nehring, chief of staff of the Foundation for Campaign Reform. "There was an AFL-CIO coordinated 'street heat' program to harass signature gatherers throughout the state. This didn't meet with much success, though."

Because of time limits imposed by California law on the signature-gathering process, most canvassing is done by independent contractors who are paid per signature. In this case, Nehring says, the unions drove up the prices by floating their own anti-business initiatives, thus increasing competition for workers, and by offering higher pay if the workers would reject approaches to carry the foundation's initiative also.

That last ploy failed, Nehring says, when the foundation got a restraining order on the ground that the tactic illegally interfered with business relationships.

Gale Kaufman, spokeswoman for a group of labor unions in California fighting the initiative, charges that the proposal "is really designed to assure that working men and women cannot participate" in the political process. She also contends that the referendum is not really a state-based effort but is an effort of "national players coming into California."

The California initiative has, in fact, drawn national attention and support. Cochairman of the campaign, along with California Republican Gov. Pete Wilson, is former Vice President Dan Quayle, who now lives in Arizona. The initiative also has the support of Reagan-era Secretary of Education William Bennett and former presidential candidate Steve Forbes.

During a meeting in November, the nation's Republican governors endorsed the California initiative.

Three nationwide polls conducted in October indicate that the public overwhelmingly backs proposals such as the California initiative. A Washington Post/ABC News poll showed 82 percent in support; a CNN/USA Today poll, 72 percent; and a Tarrence Group/Public Opinion Strategies/Voter Consumer Research Poll, 67 percent.

A Landmark Court Case

The move to limit unions' use of dues for political purposes goes back at least to 1988. That year, the U.S. Supreme Court, in *Communications Workers of America vs. Beck*, ruled that unions could not use dues money from nonmembers—who are required to pay dues in order to hold their jobs in "union shops"—for political purposes without their permission.

And in 1992, President Bush signed an executive order requiring federal contractors to inform nonunion workers of their rights under the Beck decision. (Shortly after his election, President Clinton canceled the order at the behest of his union supporters.)

In 1992, voters in Washington adopted an initiative reforming the state's campaign practices. Included in the initiative was a section requiring unions to get members' permission before collecting dues money to be used for political purposes.

The initiative was approved by 72.9 percent of the voters, even though Washington "is considered a liberal state," notes Peggy Jackson, communications director of the Evergreen Freedom Foundation, a nonprofit, nonpartisan public-policy institute in Olympia. The Washington campaign was spearheaded by Linda Smith, who subsequently was elected to the U.S. House of Representatives.

The first year after the Washington initiative passed, the number of teachers in the state contributing to their union's political activities dropped from 48,000 to 8,000. The state employees union, which had 40,000 contributors before the referendum, had 82 after provisions of the initiative that applied to that group became operative.

Efforts Across The Nation

The campaign in California is only part of a nationwide move to block unions from using members' dues for political purposes without their permission.

Oregon Taxpayers United is collecting signatures for a referendum next November that would prohibit the use of any public funds to collect money for political purposes. Marc Trueb, director of development for the group, says approval of the initiative would ban public-sector unions from using any dues money for political purposes. It would have no impact on private-sector unions or employees, he says.

Grover Norquist, president of Americans for Tax Reform, a Washington, D.C.-based group that advocates tax reduction, has been helping state organizations working to introduce initiatives related to the use of union dues for political purposes.

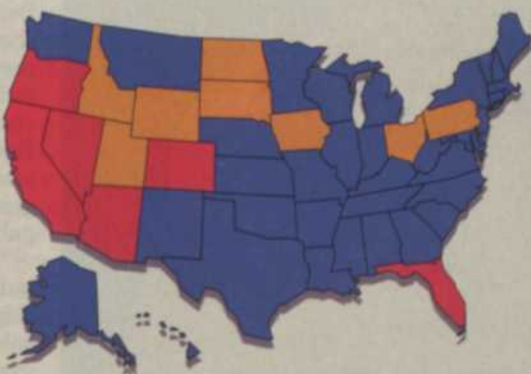
Norquist predicts a referendum will be on 1998 ballots in Arizona, California, Nevada, and Oregon, and it may also be on ballots in Colorado and Florida.

Legislation to require member permission to use union dues for political purposes will be introduced in all 50 state legislatures in 1998, Norquist says, with the possible exception of Texas, which may not have a legislative session. Bills stand a good chance of passage in Colorado, Idaho, Iowa, North Dakota, Ohio, Pennsylvania, South Dakota, Utah, and Wyoming, he says.

Norquist also forecasts that votes will be taken on union-dues bills in both houses of Congress in 1998. He thinks that House passage is likely but that a filibuster could kill the Senate bill. "Make no mistake about it, this ultimately will become the law of the land," he says. "It will probably start state by state, but it eventually will be enacted nationally." NB

A Grass-Roots Revolt In The Making

Americans for Tax Reform, a Washington, D.C.-based advocacy group, predicts that initiatives prohibiting unions from spending members' dues for political purposes without their written permission will be on election ballots in several states in 1998. The organization also expects passage of comparable legislation in a number of other states.



Initiative Expected To Be On Ballot

Arizona	Florida
California	Nevada
Colorado*	Oregon

Legislation Expected To Pass

Idaho	Pennsylvania
Iowa	South Dakota
North Dakota	Utah
Ohio	Wyoming

*Legislation also expected to pass in Colorado.

FINANCE

Easier Avenues To Equity Capital

Going public doesn't have to be complicated and costly if the company's goal for new capital is under $1 million.

By David R. Evanson

Tapping the stock market for equity capital can be a daunting prospect for a small business. Although each year about a half-million firms incorporate, there are relatively few initial public offerings—just 432 IPOs in the first three quarters of 1997, according to Securities Data Co., a financial publisher in Newark, N.J.

A major reason that not many emerging—let alone established—businesses go public to finance their growth, experts say, is that securities laws make the process complex, time-consuming, and expensive. In fact, an IPO is one of the most difficult transactions that a business can undertake.

Moreover, says financier Art Beroff, the problem with high-profile IPOs is, in fact, their high profile: "They leave most entrepreneurs with the mistaken impression that there is just one way to tap the U.S. public equity markets."

That's simply not true, notes Beroff, principal of New York City-based Beroff Associates. He maintains that far more companies could raise funds with public offerings if they took advantage of federal and state securities laws' exemptions for firms seeking relatively small amounts of money.

Under federal securities law, companies that seek to raise less than $1 million in 12 months are excused from registration requirements. The exemption is granted by Rule 504 of Regulation D of the Securities and Exchange Act. Hence, the stock sales are often known as "504 offerings" or "Regulation D" offerings.

In addition, most states offer various exemptions for offerings of $1 million or less.

Even with exemptions for such offerings, however, some states' rules—on the maximum number of stock purchasers, for example, or on purchasers' minimum net worth—are stricter than the federal rules that apply to 504 offerings. Among the least-restrictive jurisdictions are Colorado, Florida, New York, and Washington, D.C.

This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.

FINDING CAPITAL

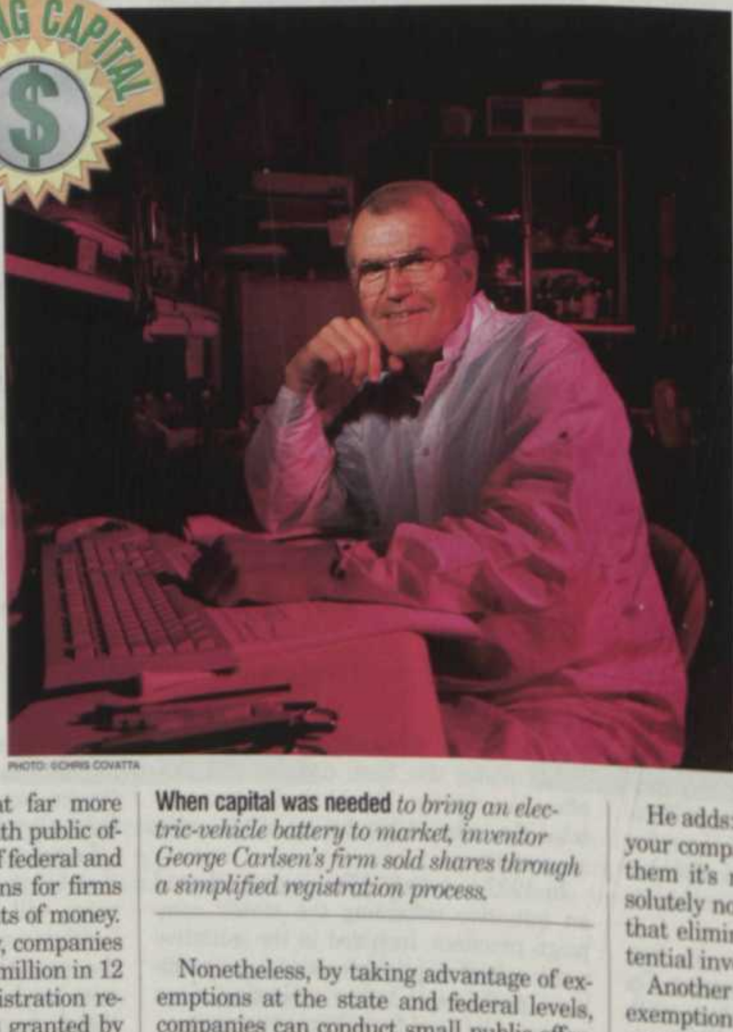


PHOTO: ©CHRIS COVATTA

When capital was needed *to bring an electric-vehicle battery to market, inventor George Carlsen's firm sold shares through a simplified registration process.*

Nonetheless, by taking advantage of exemptions at the state and federal levels, companies can conduct small public offerings that are relatively simple and inexpensive to execute.

The first step, Beroff says, is to contact the securities commission in your state or in the states where you want to sell your stock to find out what securities-law exemptions are available for small offerings.

Next, you must determine if you can structure the kind of deal you want within the confines of the state regulations.

Third, find or hire at least one skilled professional—a financing consultant, an attorney, or an accountant—to help you with the transaction. The key is to hire someone who has already worked with small public offerings.

Once the structure of the offering is established, file Form D with the Securities and Exchange Commission. This is a simple form that will ensure your stock sale enjoys the exemptions available to 504 offerings under federal securities laws.

A Place On The Board

Perhaps the most important benefit of a 504 offering, says Beroff, is that a company's shares can be traded after they are quoted on the Bulletin Board of the Nasdaq stock-listing network. The Bulletin Board is an electronic marketplace listing generally small, thinly traded public companies.

"The value of creating a public company, even if it's thinly traded, is almost incalculable," Beroff says. Once a stock is on Nasdaq's Bulletin Board, investors have a mechanism for selling shares and reaping the rewards of the company's success.

He adds: "If you ask someone to invest in your company and in the same breath tell them it's not only risky but there is absolutely no way they can sell their shares, that eliminates perhaps 90 percent of potential investors."

Another plus with 504 offerings is the exemption from the requirement to prepare an audited financial statement before going public, says Glen Bierman, a founder and chairman of Tycon Equity Partners in New York City. Tycon invests in and advises private companies on raising capital. The audit certifies that the company's financial records are accurate and truthful. An audited statement can cost more than $100,000.

Exemption from the requirement to produce an audited financial statement doesn't mean the financial data can be fudged, of course. Federal securities laws provide for

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A Financial Recharge

A firm that used the 504 approach successfully is the Electric Car Battery Co. in Solana Beach, Calif. Electric Car had developed a new battery that inventor George Carlsen, senior vice president, believed gave the firm enormous potential for sales for electric vehicles used on golf courses and in retirement communities.

When the company looked for money to finish development and fund a commercial rollout of the product, a 504 offering "seemed to be the most straightforward path to the capital we needed," says Don Hutton, the firm's chief financial officer.

Initially, the company raised $200,000 by selling 100,000 units consisting of common stock and warrants. The warrants are options, which give the holders the right to purchase additional shares at set prices.

Rather than make a complex filing, Hutton and the company simply posted a notification of intent to sell securities with the securities commissions in the jurisdictions where it would offer its shares—Colorado, Florida, New York, and Washington, D.C. The deal was completed during the third quarter of 1997, and Hutton says the company will use the funds to finish development of its battery rapidly and enter the market for the product.

Hutton hopes to list Electric Car's shares on Nasdaq's Bulletin Board and initiate a trading market for the company's securities. The only substantial hurdle to the listing will be finding at least two brokerage firms willing to act as market makers—buyers and sellers—for the company's stock.

"The thinking behind our strategy," says Hutton, "is that the combination of starting product sales in a thriving market, with some kind of trading or resale mechanism, will make the job of raising the additional funds much easier than if we were strictly a private company."

Money For The Movies

Another firm that took the 504 route to issuing stock is Twilight Productions Ltd., an independent film producer in Hollywood, Calif. Owner Eric M. Galler, an experienced filmmaker, wanted to turn out films for the thriving low-budget segment of the market.

Rather than approach Wall Street, Galler turned to Beroff, who assisted the company with its 504 offering. In its initial offering, which raised $60,000 and was completed in 1995, Twilight sold common stock and warrants to investors primarily in New York state. With the funds, Twilight produced its first film.

Although the initial stock offering was small, it was still significant because Beroff located a broker who would help the company get its stock quoted on Nasdaq's Bulletin Board. With the rudiments of a trading market for its shares in place, Twilight was able to raise additional growth capital. When investors holding the warrants exercised them, Twilight received an additional $900,000.


PHOTO: ©PATRICIA LANZA

A small *initial stock offering raised $60,000 and enabled Eric M. Galler's Twilight Productions Ltd. to produce its first film.*

The structure of the offering was a success, says Galler. "We were able to raise the start-up funds we needed inexpensively and, as we proved our concept, were able to take advantage of the trading market for their shares to raise additional funds."

The SCOR Approach

The 504 offering is not the only expedited route to capital for entrepreneurs seeking less than $1 million. Another method, popularly known as SCOR—for small-company offering registration—grew out of attempts by states to create a single securities registration form for public offerings. SCOR offerings are permitted everywhere except Alabama, Delaware, Hawaii, and Nebraska.

Although SCOR deals represent a streamlined approach to multistate stock offerings for small firms, the process of filling out Form U-7, the application for a SCOR offering, can be an impediment rather than a gateway to going public. In fact, when all 50 questions of Form U-7 are answered, the result, known as an offering circular, looks similar to a federal securities-registration statement, the time-consuming and complicated paperwork that most small firms would prefer to avoid.

"Sixty-five to 70 percent of companies that start the SCOR process fail because of the complexity of the filing," says Tom Stewart-Gordon, publisher of *The SCOR Report*, a newsletter in Dallas.

The comparative simplicity and low cost of a 504 offering makes it an attractive alternative to other types of public offerings, says Bierman of Tycon Equity Partners. "The job of raising capital is difficult enough. Small companies should not compound the degree of difficulty by taking on the burdens of complex securities filings, especially when there are ways they can be avoided."

Bierman encourages entrepreneurs to get good professional assistance. "Though the structure and sale of a 504 offering can be straightforward," he says, "a qualified legal or financial adviser may be required to understand the securities-law exemptions that are available in the states where a company wants to raise money."

A possible downside to small offerings is that they may attract little attention, making it difficult for the companies to develop an active market for their securities. Some investors and brokerage firms ignore the offerings because of concerns that the firms are too small to generate investment gains or that a few may be operating on the fringes of regulatory compliance.

Nonetheless, starting small with a 504 offering that leads to listing on the Bulletin Board and subsequent trading could prove to be a springboard to growth. "Remember," Beroff says, "it's not where you start, it's where you finish that counts." NB

David R. Evanson is a free-lance writer and financial consultant in Ardmore, Pa.

MINORITY BUSINESS

Nurturing Suppliers' National Promise

An innovative program helps selected minority-owned companies work with major corporate customers.

By Sharon Nelton

Twenty-one companies have been designated as the créme de la créme of minority-owned businesses—that is, as companies with proven ability to work on a national scale for giant corporate customers.

The companies have been identified over the past year by Corporate Plus, a program sponsored by the National Minority Supplier Development Council, headquartered in New York City. The NMSDC promotes increased procurement opportunities for minority-owned firms by bringing them together with corporations.

Purchasing executive Russell J. Bunio says Corporate Plus "is the direct result of increasingly persistent requests from national corporate members who wanted NMSDC's assistance in locating more minority businesses with the capacity to perform national contracts." Bunio, chairman of the

PHOTO: ©SANTA FABIO—BLACK STAR

Top performance *from a team of employees at Complete Business Solutions Inc., founded by Raj B. Vattikuti, seated, won recognition from Chrysler, says the automaker's Jethro Joseph, left.*

The Chosen Few

Here are the 21 companies identified so far as national players by the Corporate Plus program of the National Minority Supplier Development Council. The firms are grouped according to their sponsors, whose names appear in bold type.

- **AT&T Corp.:** NetCom Solutions International, Inc. (networking technology), Herndon, Va.
- **Avon Products, Inc.:** Avanti/Case-Hoyt (graphic communications), Miami.
- **Baltimore Gas & Electric Co.:** VSI Group, Inc. (security and meter reading), Columbia, Md.
- **Bell Atlantic Corp.:** Attronica Computers, Inc. (information technology), Gaithersburg, Md.
- **Chrysler Corp.:** Cole Chemical & Distributing, Inc. (laboratory chemicals), Houston; Complete Business Solutions Inc. (software consultants), Farmington Hills, Mich.; Freight Masters Systems, Inc. (truckload carrier), Indianapolis; Integrated Systems Analysts, Inc. (computer-systems services), Arlington, Va.
- **Cummins Engine Co., Inc.:** Taylor Bros. Construction Co., Inc., Columbus, Ind.
- **Eli Lilly and Co.:** Mays Chemical Co., Inc. (distributor), Indianapolis.
- **Ford Motor Co.:** Capsonic Group (manufacturer of electromechanical components), Elgin, Ill.; Lapeer Metal Stamping Cos., Inc., Lapeer, Mich.; Saturn Electronics & Engineering, Inc. (electronics-products design and manufacturing), Auburn Hills, Mich.
- **General Motors Corp.:** MPS Group, Inc. (industrial and environmental services), Detroit; O-J Transport Co., Detroit.
- **J.C. Penney Co., Inc.:** Drew Pearson Cos., Inc. (licensed head wear), Addison, Texas.
- **Lucent Technologies Inc.:** Washington Cable Supply, Inc. (wire and cable distributor), Lanham, Md.
- **Nortel:** Telamon Corp. (telecommunications-service provider), Indianapolis.
- **PepsiCo, Inc.:** Integrated Packaging Corp. (manufacturer of corrugated products), New Brunswick, N.J.
- **Philip Morris Cos. Inc.:** ForceField Marketing, Inc. (consumer promotional programs), Schaumburg, Ill.
- **Toyota Motor Manufacturing:** Tom Smith Industries, Inc. (thermoplastic injection molding), Englewood, Ohio.

For more information on Corporate Plus, contact James W. Proctor at the National Minority Supplier Development Council, (212) 944-2430.

NMSDC's Corporate Plus Management Committee, is vice president—worldwide manufacturing support and chief procurement officer at Cummins Engine Co., Inc., in Columbus, Ind.

It's not easy to qualify for the Corporate Plus program. A minority-owned firm must be sponsored by one of the NMSDC's national corporate members, which are among the largest corporations in the United States, says James W. Proctor, director of new business development for the NMSDC.

The sponsoring company must write a letter detailing the candidate company's ability to handle national or multiregional contracts. The nominee must also be certified as a minority business by one of the NMSDC's 42 affiliated state and local councils. And the firm must pass reviews by the NMSDC's Corporate Plus Management Committee and Executive Committee.

One of the main benefits of being named to Corporate Plus is greater visibility as a top performer. Information on the selected companies is circulated to all of the NMSDC's national corporate members. "The exposure these people are getting is tremendous," says Proctor. Although the NMSDC doesn't track the business that Corporate Plus generates for minority companies, he says the program has "most definitely" resulted in new business for them.

Raj B. Vattikuti, president of Complete Business Solutions Inc. (CBSI), a Farmington Hills, Mich., firm that provides information-technology services, believes the program will give his company more opportunities to serve as a strategic partner to new customers, in much the same way it has served its sponsoring company, Chrysler Corp.

> **Being selected for Corporate Plus "shows to the marketplace that we're a very, very viable player."**
>
> —Raj B. Vattikuti, President, Complete Business Solutions Inc.

CBSI not only has a "national presence," says Jethro Joseph, manager of special supplier relations at Chrysler, but also is "a world-class provider of integrated software and programming." Founded in 1985 by Vattikuti, who is from India, CBSI has grown to 1,900 employees and more than $100 million in annual sales and has offices in London and Singapore.

Besides Chrysler, CBSI's clients include Ford Motor Co., the states of Michigan, Indiana, and Hawaii, and the catalog company Lands' End. It has developed order-processing and other systems for Chrysler and has helped Chrysler reprogram its computers to accommodate the year 2000.

Being selected for Corporate Plus, says Vattikuti, "shows to the marketplace that we're a very, very viable player."

"They have been a true partner to Chrysler," says Joseph, adding that CBSI has "taken on special projects that have significant impact on the growth and development here at Chrysler."

Each Corporate Plus company designates five corporations with which it would like to do business, and the sponsor is responsible for serving as an intermediary for the Corporate Plus member with the companies it chooses.

In addition, the Corporate Plus members are asked to commit themselves in turn to doing business with smaller minority-owned firms. "Through this," says Vattikuti, "we'll be able to support other minority companies [that] are trying to build." NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

A Fish Tale Of Success

By Mark Richard Moss

In the early 1980s, Charles A. Hardesty sold shrimp out of the back of his pickup on weekends. Today he's the owner of two busy seafood restaurants in Winston-Salem, N.C.

"Yes, we've come a long way. And we plan on going a lot farther, too. We're not going to just stop here," says Hardesty, 44, referring to his latest venture, Forsyth Seafood Cafe, a well-appointed sit-down restaurant he opened in October.

His first business, Forsyth Seafood Market and Grill, rakes in about $700,000 in annual sales of fresh and takeout seafood and is growing at a rate of 15 to 20 percent a year. Hardesty expects the cafe to be just as successful.

Hardesty was born and raised in the coastal town of Beaufort, N.C., where his father and grandfather worked on commercial fishing boats. In Beaufort, Hardesty says, everybody, "one way or another, was connected to seafood. It was a way of life for most people."

Hardesty graduated in 1977 from Elizabeth City State University with a degree in industrial arts. Job hunting brought him to the Winston-Salem area, where he landed a position with a manufacturer of metal buildings. He rose to supervisor of shipping and receiving, but he was restless.

"Basically, the whole time I was there I wanted to do something for myself," recalls Hardesty, who yearned to start a business. But rather than quit his supervisor job, he would jump in his pickup on Friday nights and drive the 4½ hours to the North Carolina coast. He'd purchase about 600 pounds of shrimp from suppliers and head back to Winston-Salem. After a nap at home, he'd hop back in the pickup, head for a local flea market, and set up shop in the parking lot to sell his shrimp—all day Saturday and most of Sunday.

One of his customers was Bob Parrish, the owner of Forsyth Seafood, who offered to sell Hardesty his seafood market. Parrish's wife was ill, and the business, which was struggling financially, was consuming too much of his time.

But "I really didn't want to be tied down that way," recalls Hardesty. Still, he knew that if he was going to continue selling shrimp, he needed a home base.

His wife, Virginia, supported his decision, and in 1984 Hardesty resigned. With $18,000, most of it from a bank loan, he bought Forsyth Seafood.

His flea-market customers followed him to the new location, and sales took off. But Hardesty soon found that his coastal suppliers became less supportive. Hardesty, who is black, believes racial bias might have been a factor in the suppliers' changed attitude. "As long as I was doing it out of the back of a pickup, I was fine," says Hardesty. "But when they realized that I had a business and worked it like a business," he says, good deals on wholesale purchases "went out the window."

He also encountered resistance from local wholesalers, which forced him to continue to make weekly trips to the coast. With a larger truck, he was returning from the trips with thousands of pounds of seafood, and he was saving the business 25 percent by cutting out the middleman.

After 7½ years at the original location,

PHOTO: ©DUANE HALL

With a new sit-down restaurant *to go with their seafood market and takeout grill, Charles A. Hardesty and his wife, Virginia, are satisfying their appetite for business growth.*

Mark Richard Moss is a free-lance writer in Winston-Salem, N.C.

Hardesty moved to a new site in East Winston. The new building was large enough for both a fresh-fish market and a takeout grill. The market carries 15 types of fin fish and four to eight kinds of shellfish. The grill's acknowledged standout is the shrimpburger—a bun filled with fried shrimp and condiments, an idea Hardesty imported from North Carolina's coast.

Customer frustration at not having a place to sit and eat—and Hardesty's desire to expand the business—prompted his search for a site for a sit-down restaurant. The lot and building he purchased for $225,000 sit on a plateau overlooking Interstate 40's business route and are close to downtown businesses. He pumped in $175,000 for equipment and building renovations, and he hired 10 employees, doubling his work force.

Hardesty stopped making the trips to the coast, and he has mended fences with local wholesalers; now they give him deals because he places large orders.

Virginia Hardesty, who has helped with business plans and accounting in the seafood ventures, has taken a leave of absence from her job at Lucent Technologies to help launch the new cafe.

"I think the [local consumer] market is big enough," she says, despite competition from heavyweights such as Red Lobster, a national chain, and Libby Hill, which has 17 restaurants in North Carolina and Virginia. "People eat out so much now. I think there's a niche for everybody." ■

Turning Rags To Riches

By Harriet Webster

Crispina ffrench loves the fact that her business is housed in a former textile mill that fell on hard times. Breathing life into the Housatonic, Mass., mill is consistent with the philosophy of Crispina Designs, which recycles "post-consumer" clothing into one-of-a-kind garments and home accessories.

Last year the company recycled 25,000 pounds of wool sweaters, hundreds of tweed sports jackets, and bales of blue jeans and overcoats, all purchased from rag dealers across the country. The company produces vests, jackets, sweaters, jumpers, mittens, and hats as well as blankets, pillows, rugs, and stuffed animals.

The items are stitched together by a corps of about 30 sewers who work at home. Each piece bears a message from ffrench (the "ff" is an Irish linguistic quirk) that's printed on recycled cardboard: "We thank you for supporting our company and encourage you to continue to choose sustainability in your purchasing decisions. Conserve, reuse, recycle, and be kind to yourself every day."

The recycling theme runs through just about every aspect of ffrench's business. Some of her clothes incorporate fasteners made from old bottle tops and keys, and her catalog, printed on recycled paper, is mailed in a folder made from a collapsed cereal box.

Ffrench, 32, started her business in 1987 when she was an art student at Massachusetts College of Art in Boston. She sold her "ragamuffins"—whimsical, dinosaurlike stuffed animals made from recycled, multicolored sweaters—through a crafts cooperative and out of her backpack at music events.

In 1989, she was accepted as an exhibitor at the American Craft Council Show, a prestigious juried event held annually in West Springfield, Mass. It was her first show, and she wrote up more than $30,000 in orders. "I went home," she recalls, "quit my job waiting tables, and tried to figure out how I was going to make all the stuff."

She enlisted a couple of friends and set up shop in an old railroad granary in Millerton, N.Y., where she remained for six years. The company did $500,000 worth of business in 1995. But the following year, ffrench's young son was diagnosed with a serious heart condition. Unable to run her factory, she laid off her work force and ceased production. To make matters worse, her bank called in her loans. The company lost $100,000 that year, but ffrench was determined to bounce back.

PHOTO: ©CARL HOWARD—BLACK STAR

Everything old *becomes new again at Crispina ffrench's Crispina Designs, which recycles clothing into unique items.*

In 1995, she had attended a conference of the Social Venture Network, an organization of 400 companies committed to socially responsible business practices. "I hung out with all these high-rolling, socially responsible business people who were really my icons," she recalls, "and they said things like, 'We understand your business. If you ever need help, just call.'" So she did.

With the assistance of a contact she met through the network, she secured a $100,000 deal with The Nature Company, a national retailer and catalog company based in Berkeley, Calif. The deal included a $23,000 advance to get production off the ground. Crispina Designs reopened in a new location in Housatonic, close to her parents and to Stockbridge, Mass., where ffrench was raised.

Today, her 4-year-old son goes off to day care happily most days despite the fact that he is still dealing with a serious illness. And her company is thriving. By late 1997, ffrench was anticipating annual revenues that would once again approach the $500,000 mark, and Crispina Designs has 450 wholesale accounts in the United States, Canada, Europe, and Japan.

Paula Cochran, proprietor of Paula's, a Rockford, Ill., boutique and one of ffrench's oldest customers, says: "I think of her pieces as wearable art. Her clothes are almost an invitation for people to be friendly. They start a conversation." ■

Harriet Webster is a free-lance writer in Gloucester, Mass.

Sliding Into Home

By Roberta Maynard

There's nothing like a dare to motivate a person to do something he otherwise might not do. For Dave King, the dare—a rather mild one, in fact—had dramatic results: It led him to start his own business.

In 1982, King and his wife, Annette, avid weekend players of slow-pitch softball, were playing in a tournament in a small town in western Colorado. After making comments about the poor management of the event, they were asked to leave. The event manager told them that if they thought they could organize an event better, they should try it themselves.

During the long drive home that day, King recalls, they began speculating: "What if we developed *the* perfect weekend tournament for amateurs who take their sports seriously—an event that would have a strong social element, a good location, and great officiating?"

They sketched out rough financials and decided that to make enough money to give the champions a trip to Las Vegas, there would have to be three tournaments, which gave rise to the company's name, Triple Crown Sports.

For five years, they ran a softball series in Colorado with no long-term goals. Then, in 1987, frustrated in his job at an insurance company, King wrote a business plan that launched a full-time tournament operation in Fort Collins. Players wanted well-organized events, he says. "Predictability and consistency were things the event business lacked. That's what we tried to provide."

Triple Crown now runs 400 events a year in softball, baseball, hockey, soccer, and basketball.

In the early years, though, King's love of sports got in the way of financial success. He realized he had to make a decision on whether to make money or just hold a lot of "neat" events.

He developed a model of how to make money running grass-roots events, and he hit on a successful mix: Participant entry fees—typically a few hundred dollars—would provide about 50 to 60 percent of revenues, depending on the sport. Corporate sponsorships would be limited to 20 to 25 percent of revenues so that the withdrawal of any one sponsor would not necessarily scuttle an event. The remainder of revenues would come from sales of T-shirts and hats.

King recalls the company's progress by years: In 1988—Year One—Triple Crown lost about $350,000; in Year Two, $150,000. In Year Three, the company edged into the black, but it suffered its first real cash-flow crisis, which required significant readjustments with equipment and T-shirt suppliers as well as cost cutting and efficiency improvements. Those were achieved mainly through automating operations. Annette King, who had been out of the business for two years, returned as systems administrator.

But, Dave King says, "our big mistake came in Year Five. We did the No. 1 sin in growth: We put everything on the list and tried to tackle them all at the same time." That list included acquiring a smaller sports company, going into European markets, starting a division in Canada, and rolling out two more sports—volleyball and girls' fast-pitch softball. The net effect was that after two profitable years, the company lost $500,000 and owed $1.1 million.

Opting not to fold his tent, King drew up a seven-point survival plan that began with laying off everyone in the company for six weeks. The entire operation was reorganized. King personally explained the plan to everyone who was owed money. A trusted accountant had to be let go. New projects were cut. So were the operations in France and Canada. "That type of focus is hard to come by unless you have a crisis," he says

But the next year saw a turnaround. "With that little plan, we were able to swing $900,000 on the bottom line, [from a $500,000 loss] to a $400,000 profit," King says with a hint of pride.

Now the company is heading down another new road: franchising.

As early as Year Two, King knew that the company couldn't maintain a centralized management. One reason is the local nature of amateur sports. When approaching sponsors and civic authorities in new markets, he found, "you're still that out-of-town person, trying to take money out of the community. And that's always a barrier for us to overcome until they get to know us." Also, it was hard to determine when markets were ready for new sports or more events.

Such factors led to a decision to franchise as a way to provide local ownership and to allow his experienced staff to turn their energies to providing franchise support. In fact, seven of his staff of 43 were among the first team to be trained as franchisees this past September. King expects to have 20 franchisees trained by the third quarter of 1998.

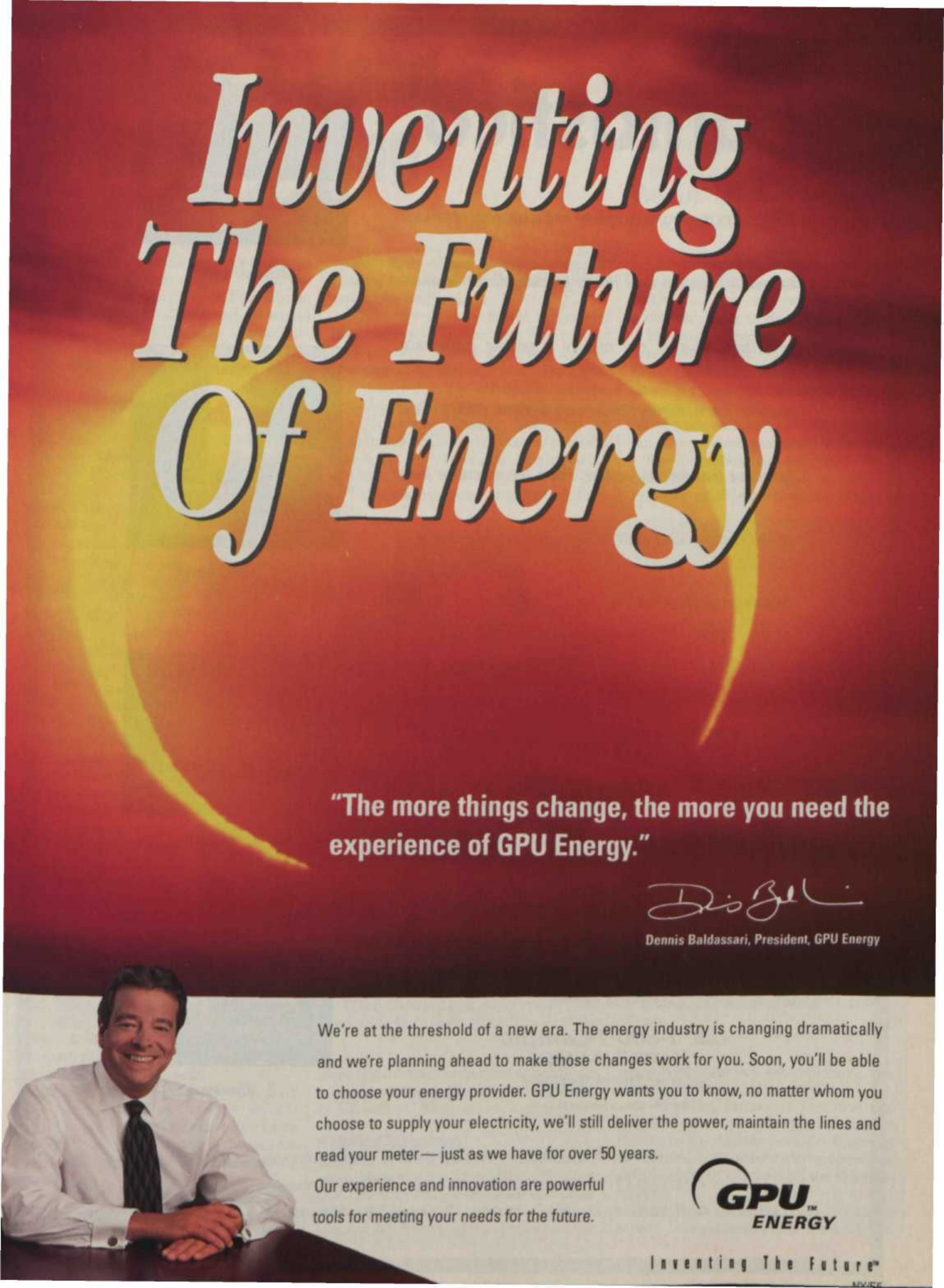
As it gears up for franchising, Triple Crown is generating revenues of $9 million a year. The company has moved successfully into the youth market, and King has plans for further expansion.

For this player, who turned CEO on a dare, Year Eleven looks like a solid hit. ■

PHOTO: ©RICHARD SHOCK

It has been a seesaw battle, *but Dave and Annette King have built a winning and expanding enterprise by running well-organized sports events for amateur athletes.*

Roberta Maynard is a business writer in Washington, D.C.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Lending A Hand With Financing

Franchisors are finding new ways to help prospective franchisees obtain the capital they need to get started.

By Joan Pryde

When Steve Kline decided several months ago to open a Primrose School franchise in Fort Worth, Texas, he discovered he would need more than $1 million to buy land and to build the school. An insurmountable obstacle to getting started? Kline didn't think so.

He went straight to AT&T Capital Corp., one of the country's largest lenders to franchisees. A couple of years earlier, AT&T Capital—headquartered in Morristown, N.J., and formerly owned by AT&T Corp.—had formed a partnership with Atlanta-based Primrose School Franchising Co., whose schools provide day-care and preschool services. The partnership allows qualified prospective franchisees to obtain financing relatively quickly and easily.

"AT&T and Primrose do such a good job in holding your hand through the financing that if you listen to what they say and you do the things they tell you to do, you should not have any problem," says Kline, a financial consultant with Merrill Lynch. He obtained a $1.3 million loan from AT&T Capital last summer, and he plans to open his school in May.

Kline's story illustrates an important development in franchising: More franchisors are offering help of some kind to meet prospective and existing franchisees' financing needs.

Although most franchisors still don't offer loans themselves, industry experts say that many, such as Primrose, are forming partnerships with financing companies to ease the loan-approval process for their franchisees.

Franchisors also are entering into joint ventures with franchisees or are co-signing loans. Still others are offering assistance ranging from classes on how to obtain financing to help in writing a business plan and a loan proposal.

While surveys show that a majority of franchisees still finance their first venture from personal savings, a growing number now expect financial help from a franchisor before they buy into a franchise concept, says Andrew Sherman, an attorney with the Greenberg Traurig law firm in Washington, D.C. Sherman is a co-author of *Financing Your Franchise* (McGraw-Hill, $16.95).

"I think a franchisor that doesn't have some type of direct or indirect franchise [financial] assistance plan in place is going to be left behind," Sherman says.

PHOTO: ©JOHN R. FULTON JR.

A partnership *between AT&T Capital Corp. and Primrose School Franchising Co. helped Steve Kline obtain financing for a school to be built on this site in Fort Worth, Texas.*

A Shortcut To Financing

Alliances between franchisors and finance companies are a way around the difficulties that first-time franchisees often encounter when applying for a bank loan. Getting a loan can be difficult, particularly when the bank isn't familiar with the franchising concept that the loan applicant is pursuing.

"Lenders that are not well-informed about franchising in general tend to look at [a franchisee's proposal] as a start-up business," says Mark Siebert, president of Francorp Inc., a Chicago-based franchise consulting company. "It may be a start-up business [in one sense], but it has an established track record as well" that the lender can discern by examining the franchisor.

The connection between AT&T Capital and Primrose was forged, in fact, after Primrose officials got tired of trying to educate bankers about the company's concept of "educational child care."

Jo Kirchner, Primrose's executive vice president, says she helped her first franchisees in the Atlanta area get financing through local banks by meeting personally with bankers to sell them on the Primrose concept.

When Primrose made plans to expand beyond Georgia and award franchises in

FRANCHISING

Texas three years ago, Kirchner says, she "realized we needed to do something else. I thought, why couldn't we get this down to a cookie-cutter concept?" Primrose now has 48 schools in six states.

By chance, Kirchner met John Teat, AT&T Capital's western regional sales manager, at a franchising seminar, and the two talked about developing a partnership. AT&T examined the company, liked what it saw, and agreed to finance loans to Primrose franchisees on an expedited basis, with the approval process focusing on the individual franchisee's creditworthiness.

"All we're doing is underwriting the borrower, not the concept," Teat says. "For that reason, our turnaround time is substantially faster. It definitely takes the heartburn out of the deal."

AT&T Capital was attracted to Primrose for several reasons, Teat says: The company has a strong management team that provides substantial support to its franchisees; it had proved itself in its marketplace by operating several company stores before beginning to sell franchises; and day care is a growing industry with high consumer demand.

Primrose is one of more than 15 franchisors that have partnered with AT&T Capital, which offers—through a subsidiary called AT&T Small Business Lending Corp.—conventional loans and loans backed by the U.S. Small Business Administration (SBA), says Teat. The company also recently created FranchiseOne, a program that makes conventional loans to multiple-unit franchisees.

A Known Quantity

Clearly, franchisors who have financing arrangements with lenders can get their franchise operations up and running quickly.

Joe Saini took advantage of such an arrangement to raise the money he needed to open his first Smoothie King franchise in Roswell, Ga., in 1995. Encountering resistance from local banks, Saini turned to The Money Store Investment Corp., a national lender based in Sacramento, Calif.

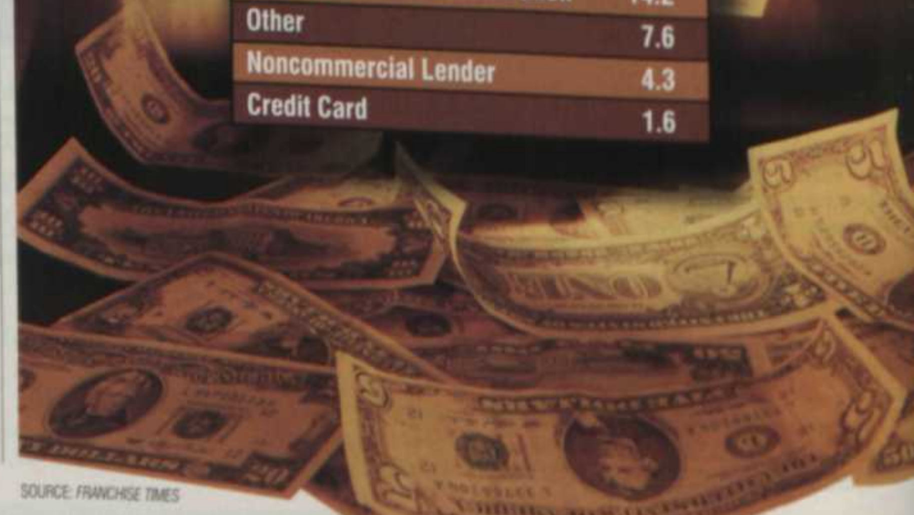
Smoothie King, headquartered in Kenner, La., sells nutritional yogurt shakes and vitamins and is considered a "targeted" franchise concept by The Money Store because it is a type of business deemed eligible for SBA financing.

The Money Store "knows who we are, and they've seen the returns [on investment]," says Smoothie King's vice presi-

How Others Have Done It

Responding to a 1997 survey conducted by *Franchise Times*, 300 franchisees listed the types of financing they used for their businesses. The percentages total more than 100 because some franchisees used more than one type of financing.

Type Of Financing	
Personal Savings	51.0%
Standard Bank Loan	36.4
Money From Friends And Family	24.1
Lending By Franchisor	21.7
Bank Loan Backed By Small Business Administration	14.2
Other	7.6
Noncommercial Lender	4.3
Credit Card	1.6



SOURCE: *FRANCHISE TIMES*

dent of franchising, Richard Levielle. "They're an easy sale because we don't have to teach them" about the business.

The Money Store advertises a simplified, streamlined loan process and longer repayment periods than a commercial bank typically would offer. Tom Hollinshead, national sales manager for The Money Store's franchise division, says the company does not charge a higher interest rate in return for the easier terms. In fact, he says, longer repayment periods are a plus for The Money Store because they put the borrower in a better position to repay the loan.

Saini borrowed about 70 percent of the $140,000 he needed, or $100,000, from The Money Store. The loan was for seven years at 2.25 percentage points above the prime rate. (As the prime fluctuates, so does Saini's rate.)

He scraped together the rest by liquidating some stocks, taking money out of his 401(k) retirement plan, and borrowing through his credit cards. After experiencing strong growth at the Roswell store, Saini opened two more stores, in Athens and Atlanta, again with the help of loans from The Money Store. He's so busy with those sites, he says, that he is in the process of selling the Roswell store. Where are the buyers obtaining financing? "The Money Store," says Saini. "I'm the one who recommended it."

Franchising-industry analysts say that in addition to AT&T Capital and The Money Store, a number of other lenders are involved in partnering with franchisors to help finance franchisees. They include SunTrust Credit in Little Rock, Ark.; National Cooperative Bank in Washington; and Franchise Mortgage Acceptance Corp. in Greenwich, Conn.

Proving You're Creditworthy

Whether you're borrowing from a franchise lender, the franchisor, or a commercial bank, ultimately the most important aspect of securing financing for a business is selling yourself as a business owner.

And that, in turn, requires a strong business plan, which describes your business experience, research you have done on your venture, your projections of how the business will perform in your locale, and the justifications for the projections.

"The No. 1 thing, from the million-dollar guy to the guy borrowing $20,000, is that you've got to have a business plan; you've got to have something concrete before anyone will talk to you," says former banker Ross LaMar, who in March became the owner of a Fort Wayne, Ind., franchise of Novus, a Minneapolis-based windshield-repair company.

Before meeting with a lender, make sure your financial house is in order. A lender will want documents such as a personal financial statement and at least three years' worth of income-tax returns, which you will have to include in your detailed loan proposal. (See "Essentials Of A Loan Proposal," Page 56.)

Besides giving the lender information about yourself, you must make sure the lender is comfortable with the franchise concept you're pursuing. Make your case by including in your loan proposal information about the franchisor, such as the company's history, its finances, and the amount of support you can expect to receive from the franchisor.

With documentation in hand, you're ready to make your pitch to the lender. "One of the things I suggest to prospective franchisees is to try to differentiate themselves from all of the proposals a banker

PHOTO: ©TODD BUCHANAN

A good relationship *with a local bank eased financing of a bagel franchise for Jim Tullis, Sue Schroeder, and their two partners.*

might see in a week," says Tom Ryan, director of franchise development for Chicago-based BAB Holdings, operator of Big Apple Bagels and My Favorite Muffin.

For Ryan's franchisees, that might involve something as simple as going to a Big Apple Bagels store and buying a platter of bagels to take to the meeting with the lender. "It says to the banker that this isn't just a piece of paper and you shouldn't just look at cash flows or numbers," Ryan says. "It may be one of those things that gets a lender a little more excited."

Loan applicants must also be prepared to bring a significant amount of their own money to the deal. Franchisors and lenders usually require an investment of 30 percent from the borrower, although sometimes it can be less. For example, AT&T Capital, because of its relationship with Primrose, required Kline to kick in only 15 percent.

Also, lenders will generally expect you to offer a personal guarantee, which will make you personally liable for the loan. A business-related building or equipment typically cannot be used to secure a loan.

Knowing Your Lender

Prospective franchisees who have the greatest success obtaining a loan from a commercial bank often are those who already

Essentials Of A Loan Proposal

In some ways, a loan proposal from a prospective franchisee is much like a proposal from any other small-business owner: It must state how much money is needed, show how the money will be used, and detail the borrower's financial situation. But a franchisee must go further than an independent firm by providing data on the franchisor as well.

Experts say that franchisees should include the following in any loan proposal:

Summary: A brief overview of the points covered in detail in the proposal. It should include the amount to be financed, plans for repayment, and a description of the franchisor and the franchise agreement.

Identities of the key players: A listing of the franchisee's management team and all other key staff members and their résumés. The emphasis should be on the management experience of the individuals who will be running the business.

Financial information: In addition to the loan amount being requested and repayment projections, this section describes the franchisee's sources of collateral and how the loan would be used. It also includes the borrower's personal financial statement and income-tax returns from the previous three years and the business's budget and cash-flow projections.

Market data: An outline of the state of the local market and the prospects for the franchisee's business in that market. Included should be the size of the market and its demographics, profiles of potential customers, industry trends, major competitors, and strategies for local advertising and promotions.

General information about the franchisor: A total picture of the franchisor. The lender likely will want to know the franchisor's progress in developing the business; any plans for expansion into the franchisee's local market; and the kind of financial and other support the franchisor is willing to provide to the franchisee. This section should include the franchisor's business financial statement.

PHOTO: ©BOB RANSOM—BLACK STAR

Now they're cooking: *A Small Business Administration program that cuts paperwork for loans of $100,000 or less got Scott Zide, left, and Chris Baumgartner into a Mr. Goodcents Subs & Pasta franchise in Missouri.*

are on good terms with their local banker. Jim Tullis and Sue Schroeder found that out when they and two business partners—Bruce Browning and Guy W. Shilts Jr.—got into franchising about a year ago.

The four were already operating a small business, Crossroads Counseling Center, an outpatient mental-health and alcohol-treatment facility in Janesville, Wis. In developing Crossroads, the partners had done business with Bank One in Janesville, part of the Columbus, Ohio-based Banc One company.

That relationship led them to turn to Bank One when they decided to purchase a franchise from Big Apple Bagels. The four bought an existing Big Apple Bagels store in Janesville for about $220,000 in December 1996.

"In our situation, it wasn't that difficult to obtain the financing," Tullis says. "We went to our local bank because we already had a well-established relationship with them." That led to a speedy loan-approval process, an equity contribution from the partners of just under 20 percent, and a loan from Bank One of $180,000.

The partners hope to expand to five Big

FRANCHISING

Apple Bagels stores in the next few years. Although they are aware of other financing options for their expansion, when it's time to finance the additional stores, "we may find ourselves better off with our local bank," Schroeder says.

To help established Big Apple Bagels franchisees who want to open additional locations, BAB Holdings has set up an alliance with Franchise Mortgage Acceptance Corp. of Greenwich, Conn., which makes commercial loans to franchisees. The financial assistance provided by FMAC doesn't extend to first-time franchisees, BAB Holdings' Ryan says, because "we believe somebody should scratch and claw and fight to get that first store financed."

What if you want to get into franchising but you don't have an established relationship with a bank or other lender? Your key to financing a franchise successfully will be locating a franchise company that has a support system in place, either a partnership with a lender or a program for helping you to develop your business plan and present yourself to a lender.

The SBA's Programs

Whatever the source of your loan, there's a good chance it will be backed by the SBA, which guarantees loans to franchisees and other small-business owners under its 7(a) program.

Although there is no limit on loan size, the maximum amount the SBA will guarantee—agree to pay the lender in the event of a default—is $750,000. To be eligible for the program, you must have been turned down by a commercial lender or the lender must certify that it could not make the loan without a guarantee.

If the amount of 7(a) financing you need is small enough—no more than $100,000—you can take advantage of a special SBA

PHOTO: ©SHAWN SPENCE

A solid business plan *is the most important thing when seeking a loan, says Ross LaMar, who with his wife, Jill, recently opened a Novus windshield-repair franchise in Indiana.*

program called the Low Documentation Loan Program, or LowDoc. Under LowDoc, small-business owners fill out only a one-page application, and the approval process can be completed in just a few days.

Chris Baumgartner says cutting through the paperwork with LowDoc was a big help when he and his partner, Scott Zide, wanted to open a Mr. Goodcents Subs & Pasta franchise in Ellisville, Mo., in 1995.

Baumgartner and Zide, both 23 at the time, had no business experience, and they enlisted the help of another Mr. Goodcents franchisee in completing the LowDoc application and writing a business plan.

The franchisor provided support by giving the two partners suggestions on the mechanics of a business plan and sharing with them samples of plans written by successful Mr. Goodcents franchisees, Baumgartner says.

Even with all that help, the two were turned down by the first bank they approached in St. Louis. But they hit pay dirt with the second, Mercantile Bank, which was familiar with the franchisor because it had made a loan to another Mr. Goodcents franchisee.

Baumgartner and Zide borrowed just under $100,000, and each was required to

bring $18,000 of his own money to the deal.

Despite their inexperience, Baumgartner and Zide proved to be a good credit risk. Their store turned a profit in the second month, and sales increased an average of 10 percent each month through the first 10 months of operation. "And we're still growing," Baumgartner says.

Being Your Own Banker

Starting a franchise doesn't necessarily mean borrowing money, especially if the initial costs are relatively low. Novus franchisee LaMar, though he knew the banking industry, decided against debt financing for his business. Instead, he used his personal savings to pay the approximately $17,700 in start-up costs. That included a $15,000 franchise fee and $2,700 for equipment and other items.

The money LaMar saves on financing costs is plowed back into the business, which he owns with his wife, Jill. "What we save on interest we spend on marketing," he says. "It's also paying for our telephone lines, the fax line," and other month-to-month business expenses.

Had the LaMars needed financing help, however, they likely would have obtained it from the franchisor. Roger Taylor, franchise executive for sales and support with Novus, says the company has been running a program for the past couple of years under which a franchisee can borrow up to $12,000 directly from Novus.

"There are a lot of people out there who have that entrepreneurial spirit but [are] short on one thing: money," says Taylor. "We feel comfortable in financing them."

Novus has nearly 375 owners around the country operating about 550 franchises, Taylor says, and more than half of Novus' new franchisees take out loans from the company.

Franchisors can still offer support during the financing process without lending money or leading the franchisee to lending sources, says Smoothie King's Levielle. For example, his company offers a two-day class to prospective franchisees that educates them about financing, budgeting, and business planning.

Franchisees receive financing formulas that allow them to calculate roughly how much of an investment they will need for each potential Smoothie King site. They also are shown the basic structure of a business plan and how to put it in the best light for a lender.

Says Levielle: "We try to teach the franchisee how to do a presentation" that includes brochures, color graphics in the business plan, a picture of the store, and references from other banks. NB

Showing You The Money

The following financial institutions offer various types of financing to prospective franchisees.

This list was provided by the International Franchise Association, a Washington, D.C., organization that represents various segments of the franchising industry. Lenders in Canada and England require that their loans be used for franchise units in those countries.

Advanta Business Services; 1020 Laurel Oak Road, Voorhees, N.J. 08045; 1-800-255-0022. Contact: Betsy Hepfinger, manager of franchise services.

AT&T Capital Corp.; 44 Whippany Road, Morristown, N.J. 07962; 1-800-713-4984. Contact: Woody Prothrow, franchise product manager.

Atlantic Financial Services, Inc.; 960 Avenue of the Americas, New York, N.Y. 10001; 1-800-535-9017. Contact: Donald Hakes, executive vice president.

Bank of Montreal; 55 Bloor St. West, 15th Floor, Bank of Montreal Tower, Toronto, Ontario M4W 3N5, Canada; (416) 927-6020. Contact: Ian Hamilton, senior manager, national franchising services.

Canadian Imperial Bank of Commerce; CIBC, Commercial Banking,Commerce Court, Postal Station, Toronto M5L 1A2, Canada; (416) 980-3225. Contact: Charles Scrivener, general manager, national franchising.

Commercial Capital Corp.; 406 Farmington Ave., Farmington, Conn. 06032; 1-800-749-8707. Contact: Timothy Abernathy, senior vice president.

Countrywide Home Loans; 155 North Lake Ave., 7th Floor, Pasadena, Calif. 91109; 1-800-978-8013. Contact: Bob Stepp, national accounts manager, franchise financing unit.

Deutsche Financial Services; 2333 Waukegan Road, Deerfield, Ill. 60015; (847) 948-1845. Contact: Robert Oseland, vice president.

Franchise Mortgage Acceptance Corp.; 5 Greenwich Office Park, Greenwich, Conn. 06831; (203) 863-7100. Contact: Wayne Knyal, president.

Global Alliance Finance Co., LLC; 31 W. 52nd St., New York, N.Y. 10019; (212) 469-8797. Contact: Doug Monticciolo, president.

Alliances between franchisors and finance companies are a way around the difficulties that first-time franchisees often encounter when applying for a bank loan.

Independence Funding Co., LLC; 3010 LBJ Freeway, Suite 920, Dallas, Texas 75234; 1-800-225-1776. Contact: W. David Jenkins, executive vice president.

McFarland, Grossman & Co.; 9821 Katy Freeway, Suite 500, Houston, Texas 77024; (713) 464-7770. Contact: Clifford McFarland, managing director.

The Money Store Investment Corp.; 601 University Ave., Suite 125, Sacramento, Calif. 95825; 1-800-362-3071. Contact: Carolyn Haut, vice president.

National Cooperative Bank; 1401 Eye Street, N.W., No. 700, Washington, D.C. 20005; (202) 336-7618. Contact: Stanley Dreyer, vice president, development.

Nat West Bank; Level 10, Drapers Gardens, 12 Throgmorton Ave., London EC2N 2DL, England; 44 171-920-5256. Contact: Peter Stern, senior franchise manager.

Phoenix Financial; 2401 Kerner Blvd., San Rafael, Calif. 94901; 1-800-521-4054. Contact: Cal Rothman, vice president.

SunTrust Credit; 111 Center St., Suite 1000, Little Rock, Ark. 72201; 1-800-395-7077. Contact: Scott Hasting, senior vice president, marketing.

Textron Financial Corp.; 5901-A Peachtree Dunwoody Road, Atlanta, Ga. 30328; 1-800-342-1687. Contact: Jamie Clark, manager, franchise finance.

Family Business

Special attention for outsiders; readying your heirs to take the wheel of the company.

OBSERVATIONS

Doing Right By Nonfamily Employees


PHOTO: T. MICHAEL KEZA

By Sharon Nelton

Family-business owners say that the greatest challenge in managing nonfamily employees is providing them with opportunities for advancement. Running almost neck and neck in second place, according to the Arthur Andersen/MassMutual American Family Business Survey '97, are the challenges of attracting new nonfamily managers, motivating them, and compensating them.

Family businesses need talented employees, from within the family and from outside. But the study, sponsored by Arthur Andersen, a professional-services organization, and Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the nation's 10th-largest life-insurance firm, hints at what many family-business owners know: Attracting and keeping nonfamily employees requires special care.

For one thing, family-business owners need to understand and respect the risks that nonfamily employees—especially managers—take when they join family firms. First, there's the risk that a "son or daughter or cousin could show up and be given precedence over nonfamily employees purely because of the fact that they're in the family," says Paul L. Sessions, director of the Center for Family Business at the University of New Haven in Connecticut.

There may be a financial risk, he says—an employee might work in a family firm for many years only to be terminated at the whim of the family at a time in life when it's difficult to make a new start. Or a disruption in the family, Sessions says, "could have an enormous negative effect on their career or their ability to do their job."

Besides recognizing the risks that nonfamily employees take, what else can owners do to manage them effectively? Sessions offers these suggestions:

■ Don't make distinctions between family and nonfamily. The companies that deal with nonfamily employees successfully, he says, "are the ones that put the person best qualified to do the job in the position that they're qualified for," regardless of whether they're family. There needs to be a clear understanding among family members, he says, "that you're not entitled to a job; you're here because you can bring something to the company."

■ Understand why nonfamily employees want to work for you. While compensation is important, says Sessions, employees often are attracted by the opportunity to try things they couldn't try in a more bureaucratic organization.

■ Be open about financial information. You don't have to provide every detail, but you do need to divulge—just as public or nonfamily companies do—all the information "that managers need in order to manage," says Sessions.

■ Include top nonfamily managers in strategic planning. Instead of bringing in an outside consultant to develop a plan, says Sessions, it's better to do it internally, involving your key people. Then it becomes "enormously powerful in terms of really getting your company focused."

A well-managed family business can be a wonderful place for nonfamily employees to work. The key, suggests Sessions, is managing well. ■

PLANNING

Preparing Your Children To 'Drive' The Business

By Maryan K. Baskin and Craig E. Aronoff


PHOTO: ©BRUCE POWELL

Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise at Kennesaw State University in Kennesaw, Ga. Maryan K. Baskin is a learning-systems specialist in Malibu, Calif. Both are family-business consultants. Copyright © by the Family Business Consulting Group, Inc.

A recent article by Lynn Smith in the *Los Angeles Times* was titled "It'll Drive You Crazy, But Help Your Teen Behind The Wheel." In it, Smith urged parents to take a long time to teach their children to drive; to be slow in adding responsibilities such as carrying passengers or driving alone; and to set limits, such as no driving at night or in rush-hour traffic. In other words, Smith advised parents to prepare children carefully and thoughtfully to become reliable adult drivers.

Many parents who own businesses spend more time and effort teaching their children to drive than teaching them about the family business. Of course, reckless driving can be fatal immediately. But a lack of proper knowledge of the family business also can be disastrous in many ways and can affect the lives of other family members as well as employees.

In many cases, parents do not want to make children feel forced into the business. They feel their children should have the right to choose their futures.

To avoid imposing pressure or a sense of obligation, parents might wait for a son or daughter to express interest or, when a young child asks about the business, might discourage further inquiries until they think he or she is old enough to make a personal decision on joining the family

firm, which is often not until during or immediately after college. It comes as no surprise that these children, lacking exposure to the business, care nothing about it.

On the other hand, parents might expect their children to begin working in the business at an early age and to remain "faithful" to the family through continued, steadfast employment in the family trade.

As these children grow toward adulthood, their parents might make them feel as though they can't work anywhere else because they don't have the skills or experience to join another firm. As the children mature, they might grow to hate the business and the parents who forced them into it.

How do you reach a happy medium between those two extremes? How do you teach your children about the family enterprise while still giving them the freedom to be themselves and the confidence to do whatever they want?


ILLUSTRATION: TROY THOMAS

We can paraphrase Smith's lessons about driving:

■ Have a carefully constructed, long-term plan for increasing your children's knowledge of the family business. Begin when they are young—by the time they start school.

Take the time to help them get a brief overview of your business. Answer questions sincerely, honestly, and briefly. Too much detail at this age is not necessary. They will ask for more information when they want it.

Let them work with you if you can, but limit the time they spend at the business. Consider their limited attention span at this age, and give them purposeful tasks that can be done in 15 minutes.

■ As they grow through elementary school and junior high or middle school, provide them with a slowly increased understanding of the framework you have already given them. Assigned tasks can become increasingly complex, but the time required to complete them should still be limited. You want them to understand what the business is and what you do, but you also want them to have time for childhood fun.

■ If you can, select a specified time each week when your children come to work or learn about work. For example, one hour immediately after school every Tuesday could be set aside as "work time." At some point, a child may want to increase that time.

■ As assigned tasks become more difficult, rewards and responsibilities should increase. Help your children grow gradually into enjoying the feeling of success that work can provide and the sense of accomplishment and purpose that additional responsibilities can engender.

■ Leave personal baggage at home. If you are angry with a child over something that happened at home, separate those feelings from what needs to be done at work. You can let your child know that the upsetting issue will still be dealt with at home but that it does not affect work or the business.

■ Stay calm. Some tasks may seem simple because you've been doing them for years without thinking about all the background information it takes to perform them. If your child makes a mistake, try to correct it together so you can provide the missing pieces of information.

If you cannot maintain your equilibrium, consider delegating this responsibility to a trusted, patient, key employee, who can serve as coach to your potential successors.

■ When your children are old enough, encourage them to apply for jobs in other organizations. They will feel more confident if they know they can do other jobs as well as work for the family.

■ Do not always stay involved in their decisions. As they mature, assign them specific projects, then let them do their work and report the results back to you. Their conclusions may not be the same as yours, but they might be better.

Listen with an open mind to what your sons and daughters have to say, and give them the same respect you would give a new nonfamily employee hired to do the same job. You may have a business genius on your hands. Listen and find out.

One final note: Leave the business at the business if you can. When you attend other activities with your children, be just as interested in those activities as you are in business activities. You and your children will benefit from pleasurable times together away from work. NB

MARK YOUR CALENDAR ✓

Jan. 28, Stamford, Conn.

"Family Business Owner's 'In Box'" is a program offered by the Family Business Program at the University of Connecticut. To be repeated on Jan. 29 in Hartford, Conn. Call (860) 486-5740.

Jan. 28-Feb. 1, Atlanta

The "Family Business Academy" is a program for family members who have already been identified as potential successors or are considering entering the family business. Call the Family Enterprise Center at Kennesaw State University; (770) 423-6045.

Feb. 11, Jericho, N.Y.

"Negotiations and Mediations in the Family Business" is the topic of a meeting presented by the Center for Family Business at Long Island University. Call (516) 299-2236.

Feb. 17, Durham, N.H.

"Developing Guidelines for Family Members To Enter (Or Exit) the Business" is a program offered by the Center for Family Business at the University of New Hampshire. Call Barbara Draper at (603) 862-1107.

Feb. 19-22, Tucson, Ariz.

The "Women in Family Business Retreat" explores roles for women inside and outside the family business, family-business communication, and other topics. Consultants Leslie Dashew and Mike Cohn are featured. For more information, call the Human Side of Enterprise, a family-business consulting firm, at (404) 252-7113.

Feb. 22-25, Los Angeles

"A Ribbon of Dreams," a conference on family foundations, covers such topics as making grants, management, governance, family dynamics, and foundation fundamentals. Contact the conference information desk at the Council on Foundations; (202) 466-6512.

How To Get Listed

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November Poll Results

Readers' Views

Impact Of Strikes

Forty percent of respondents to a recent Where I Stand poll in *Nation's Business* said their companies could not survive a walkout by employees, and 18 percent said they weren't sure if their firms could. Forty-two percent said their businesses could survive a walkout.

The Teamsters union strike against United Parcel Service last summer hurt the companies of 49 percent of respondents to the poll in the November issue, while 47 percent said the strike had no impact on their firms. Four percent said the strike improved their business.

Thirty-one percent said they believe stepped-up union efforts nationwide will increase chances of union activity in their industries, while 69 percent believe it will not boost the likelihood in their lines of work.

When asked about their expectations of union organizing efforts in their companies in the year ahead, 80 percent said they expect no such activity. About 10 percent of the country's private-sector work force is already unionized.

About two-thirds of the respondents said they felt wages and benefits were of greater concern to their employees than job security and working conditions.

Here are the complete results of the poll:

Questions And Answers

How did the recent Teamsters union strike against United Parcel Service affect your company?

Improved business	4%
Hurt business	49
No impact	47

Do you think the Teamsters-UPS strike and stepped-up union activity nationwide will increase chances of union activity in your industry?

Yes	31%
No	69

Do you expect your company to be adversely affected by a strike at another company in the next year?

Yes	27%
No	73

Do you expect an effort to unionize your employees within the next year?

Yes	9%
No	80
Already have a union	11

Could your company survive a walkout by its employees?

Yes	42%
No	40
Unsure	18

Which among the following issues is of greatest concern to your employees?

Wages and benefits	67%
Job security	28
Working conditions	5

Where I Stand

On OSHA

The Occupational Safety and Health Administration, part of the U.S. Labor Department, has long been a lightning rod for business complaints about the regulatory mandates of the federal government. Congress will consider OSHA-reform legislation in 1998. These questions seek your views on the agency.

Results of this poll will be published in the March issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 **Do you think OSHA regulations are fairly and properly enforced?**

1. Yes
2. No

2 **When was the last time an OSHA inspector visited your business?**

1. Within the past year
2. More than a year ago
3. Never had a visit

3 **Should OSHA inspectors be allowed to offer help to firms in complying with regulations before issuing a citation for a violation?**

1. Yes
2. No

4 **Would you be willing to set up a "safety team" of managers and employees to look at hazards in your workplace if the law allowed such teams?**

1. Yes
2. No

5 **Would you implement recommendations of an OSHA-certified private safety consultant if doing so would prevent OSHA from leveling penalties for a specific period?**

1. Yes
2. No

6 **Should properly trained and equipped workers be fined by OSHA, as reform legislation proposes, if they violate the agency's safety rules?**

1. Yes
2. No

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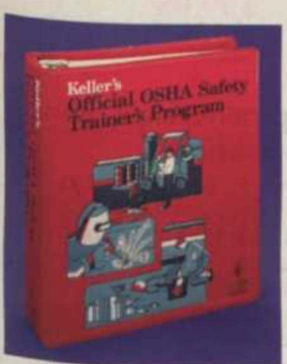

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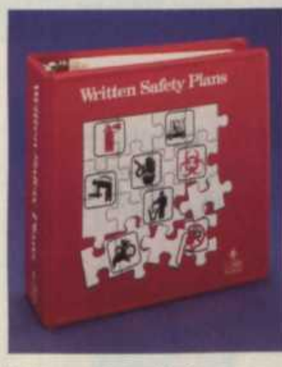

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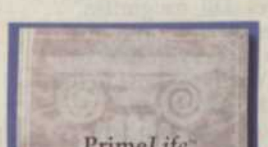

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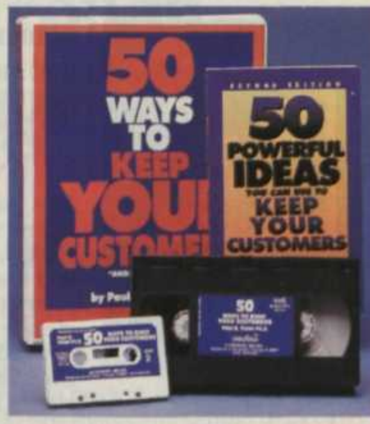

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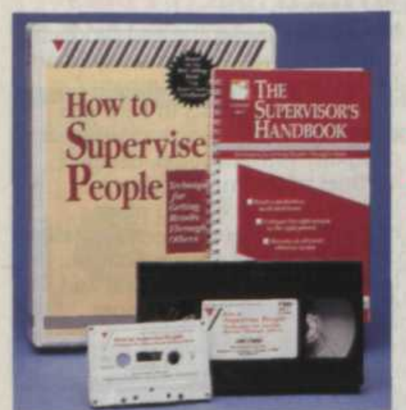

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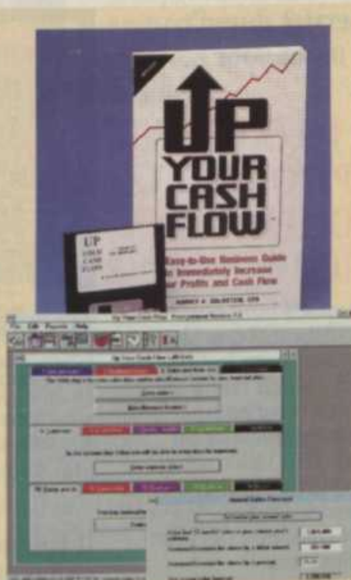

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Editorial

Watch Out For Clinton On Health Care

There he goes again.

President Clinton is pressing yet another heavy-handed scheme for federal intrusion into the nation's health-care system.

He wants Congress to adopt in 1998 what he terms "appropriate federal protections" for the purchase of health-care services.

The specifics of the plan were developed by a 34-member advisory commission representing the health-care field, the business community, consumers, labor, and state and local governments. Clinton named the panel to develop the recommendations.

The commission's report, *Consumer Bill of Rights and Responsibilities*, covers issues such as choice of providers; access to specialists; appeals procedures on patient disputes with health plans and health-care providers; availability of information about health plans and providers; and responsibility of individuals for "maximizing health habits." (See Benefits Update, Page 29.)

The commission conceded that it had not considered cost implications and that in some circumstances its proposals could "create additional costs for employers; health insurers and plans; federal, state, and local governments; and consumers."

Not surprisingly, the plan already has run into stiff opposition. Reminding the public of Clinton's failed 1993-94 effort at health-care reform, House Majority Leader Richard Armey, R-Texas, said: "Clinton Care 2 will include all the essential regulatory features of Clinton Care 1."

Small business is getting ready to fight the new health-care initiative as vigorously as it did the 1993-94 effort. This new opposition was signaled when the one dissenting vote to the advisory commission's recommendations came from member S. Diane Graham, chairman and chief executive officer of STRATCO, Inc., of Leawood, Kan., a 50-employee engineering and technology company.

PHOTO: T. MICHAEL KEZA

Proposed changes *in health-care delivery could make it costlier for consumers and employers, advocates concede.*

Informing Clinton of her disagreement, she noted the lack of a cost analysis in defining various consumer rights. Graham wrote to the president:

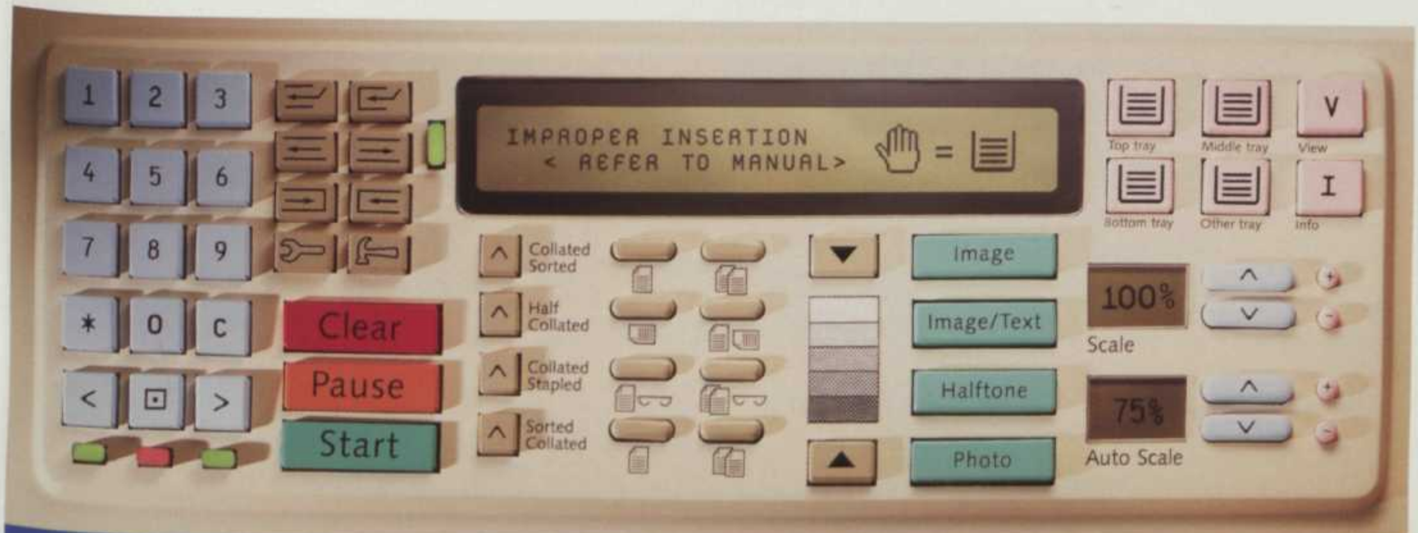
"I believe the core principles contained in the commission's report are realistic aspirations to be achieved over time within a voluntary marketplace. … I most fervently oppose presenting these aspirations as 'rights' to be legislated into dictates" without regard to affordability or consumer preferences.

Federal actions that escalate health-insurance costs, Graham wrote, would force many small businesses to drop employee coverage entirely.

Such concerns are already reflected in the opposition of major Washington-based business organizations. Thomas J. Donohue, president and chief executive officer of the U.S. Chamber of Commerce, responded to the Clinton initiative by noting that it "charts a dangerous course of government micromanagement that will increase costs and decrease employee coverage."

"The private sector already leads the way on quality improvement. We don't need the federal government's involvement," Donohue said.

Rather than press the commission's government-oriented plan, the president should heed the advice of dissenting member Graham: Work with interest groups to expand access to quality care through "visionary, voluntary, and viable" approaches. NB



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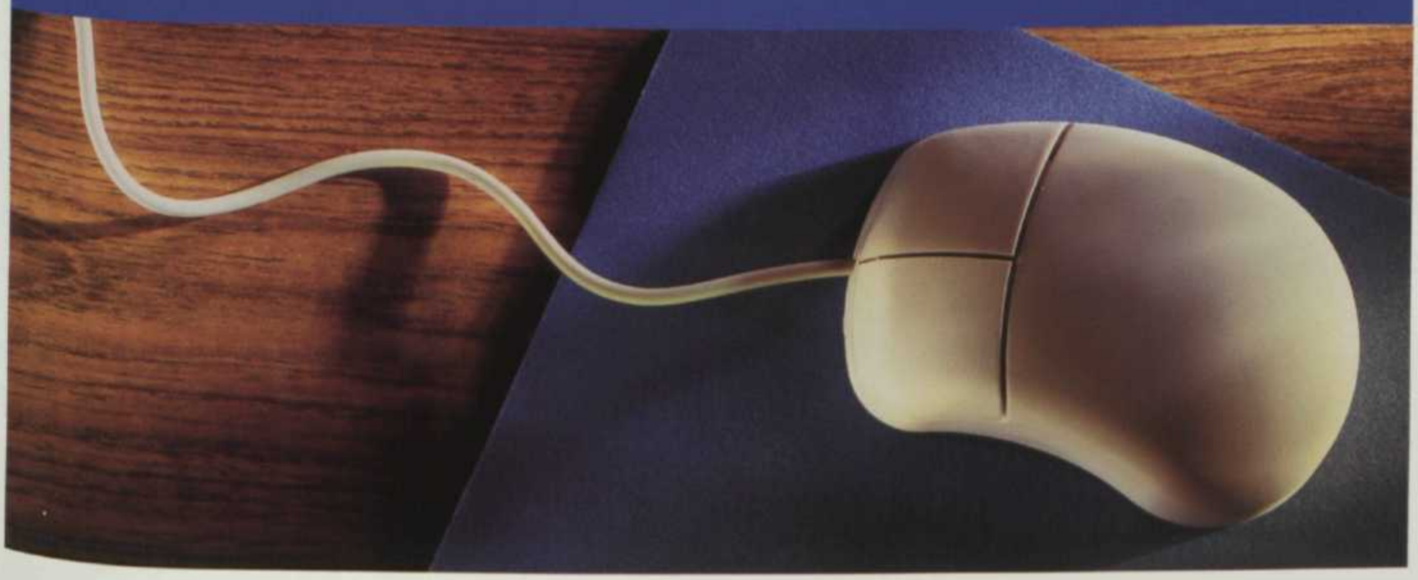

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